

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 (*consolidated*)

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In the Matter of the Petition of

AVISTA CORPORATION, D/B/A AVISTA UTILITIES,

For an Order Authorizing Implementation of a Natural Gas Decoupling Mechanism and to  
Record Accounting Entries Associated With the Mechanism

Docket No. UG-060518 (*consolidated*)

TESTIMONY OF  
BARBARA R. ALEXANDER (BRA-2T)  
ON BEHALF OF THE ENERGY PROJECT

**September 11, 2009**

**PUBLIC VERSION**

**CROSS REPLY TESTIMONY OF BARBARA R. ALEXANDER (BRA- )**

**DOCKET NO(S) UE-090134, UG-090135 & UG-060518**

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**EXHIBITS FOR THE TESTIMONY OF BARBARA R. ALEXANDER**

Exhibit No. \_\_\_\_\_ (BRA-3)

1                   **I. INTRODUCTION AND SUMMARY OF RECOMMENDATIONS**

2           **Q: Please state your name and business address.**

3           A: My name is Barbara R. Alexander. My office is located at 83 Wedgewood Dr.,  
4           Winthrop, Maine 04364.

5           **Q: Have you testified previously in this proceeding?**

6           A: Yes. I filed Direct Testimony on behalf of The Energy Project on August 17,  
7           2009 with respect to the Decoupling Mechanism operated as a pilot program by  
8           Avista Utilities (“Avista”).

9           **Q: What is the purpose of your testimony at this time?**

10          A: I am filing Cross Reply Testimony in response to the Direct Testimony of  
11          Deborah J. Reynolds on behalf of the Staff of the WUTC (“Staff”) and in  
12          response to the Direct Testimony of Nancy L. Glaser on behalf of the NW Energy  
13          Coalition (“Coalition”).

14          **Q: What exhibits are you sponsoring in this proceeding?**

15          A: I am sponsoring Exhibit No. \_\_\_\_ (BRA-3), which contains a bill impact analysis of  
16          the Staff’s proposed \$10 monthly customer charge on three residential customer  
17          usage levels.

18          **Q: Please summarize the testimony of Ms. Reynolds on behalf of the Staff.**

19          A: The Staff recommends that the Decoupling Mechanism be phased out over a two-  
20          year period. In its place, Ms. Reynolds recommends a significant increase in the  
21          minimum monthly charge for Schedule 101 customers from its current level of  
22          \$5.75 to \$8 per month starting January 1, 2010 and to \$10 per month starting  
23          January 1, 2011. Both of these rate increases for the minimum monthly customer

1 charge would be accompanied by a decrease in the usage charge to maintain a  
2 class revenue neutral result. At the same time, Ms. Reynolds recommended that  
3 the monthly customer charge be decreased to \$3 per month for limited income  
4 customers who are identified by virtue of their participation in the LIHEAP and  
5 LIRAP programs. The cost of this subsidy would be included in the current  
6 Schedule 191 surcharge and Ms. Reynolds calculates that the impact of this  
7 recommendation would increase the surcharge by \$0.00965 over the next three  
8 years, increasing an average residential customer bill by \$0.11 cents per month. If  
9 the Staff's recommendation concerning the phasing out of the Decoupling  
10 Mechanism is not adopted, Ms. Reynolds proposes several reforms to the current  
11 structure of this program. She also documents concerns with Avista's evaluation  
12 policies and protocols, but recommends that these matters be taken up with a  
13 stakeholder collaborative.

14 **Q: Please summarize Ms. Glaser's testimony on behalf of the Coalition.**

15 A: Ms. Glaser's testimony on behalf of the Coalition appears to find defects and  
16 concerns with respect to the implementation of the Decoupling Mechanism, but  
17 then recommends that it continue, stating that it would be "premature and unwise"  
18 to eliminate it at this time.<sup>1</sup> As part of her proposed reforms, she recommends  
19 that Avista be required to conform to a limited income efficiency target in the  
20 revised Decoupling Mechanism. However, Ms. Glaser does not recommend a  
21 specific target or describe in detail how her recommendation would be  
22 implemented in the operation of the deferral formula.

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<sup>1</sup> Direct Testimony of Nancy Glaser (NLG-1T) at 16.

1       **Q:    Please summarize your response to the recommendations of the Staff and the**  
2       **Coalition.**

3       A:    Both the Staff and the Coalition have documented significant concerns with the  
4       overall implementation of the Decoupling Mechanism. While the Staff  
5       recommends that it be phased out, the Coalition recommends substantial and  
6       significant reforms in an attempt to retain the mechanism itself. Significantly,  
7       both parties recognize that natural gas usage is declining and that the impact of  
8       the Decoupling Mechanism on this trend is unclear and not easily identified.  
9       Taking into account the recommendations of the Public Counsel and The Energy  
10      Project to terminate this experiment, there is clearly a lack of consensus on the  
11      value and benefits associated with the Decoupling Mechanism as currently  
12      designed and implemented. I continue to recommend that the Decoupling  
13      Mechanism be terminated.

14                   With respect to the Staff's recommendation that the Commission  
15      abandon the Decoupling Mechanism and adopt a significant increase in the  
16      minimum monthly customer charge, it is not appropriate for the Staff to suggest  
17      such a dramatic change in how customers are billed for essential natural gas  
18      service in the context of a proceeding that was designed to evaluate Avista's  
19      Decoupling Mechanism. More importantly, I cannot agree with the Staff's  
20      suggestion that the adverse impact of the increase in the monthly customer charge  
21      on limited income customers can be ameliorated with a subsidized reduction in  
22      the monthly customer charge for LIHEAP and LIRAP participants. These  
23      programs currently enroll a very small percentage of eligible customers.  
24      Therefore, the vast majority of low use and limited income customers would not

1 be shielded from these adverse bill impacts.

2 With regard to Ms. Glaser's recommendation to target a specific  
3 level of efficiency spending to limited income customers as part of the  
4 Decoupling Mechanism formula, the lack of any details concerning this  
5 recommendation make it difficult to agree with, at least as a condition of allowing  
6 the Decoupling Mechanism to continue. Ms. Glaser did not identify the dollar or  
7 percentage amount of any targeted increase in spending for this purpose or how  
8 such a target would interact with and impact the overall deferral formula in the  
9 Decoupling Mechanism. While an increase in spending for limited income  
10 efficiency programs is welcome, there is no basis for suggesting that her vague  
11 and undefined recommendation should be relied upon to continue the Decoupling  
12 Mechanism. Furthermore, the notion that Avista must be given a specific  
13 spending target for limited income DSM programs proves my key point. As I  
14 documented in my Direct Testimony, Avista negotiates the budget for this aspect  
15 of its efficiency programs on a regular basis and there is no evidence that any  
16 incentive has been created by the operation of the Decoupling Mechanism that  
17 impacts these programs. Finally, I recommend that the Commission focus more  
18 directly on the defects and lack of evidence associated with the impact of the  
19 Decoupling Mechanism on Avista's efficiency decisions as described by Ms.  
20 Glaser rather than attempt to "fix" these defects with complicated formulas and  
21 reforms.

22 **Q: As a result of your consideration of the testimony submitted by the Staff and**  
23 **Coalition, have you changed the recommendations reflected in your Direct**  
24 **Testimony?**

1 A: No. I have not changed my original recommendations and I have repeated those  
2 recommendations below as a matter of convenience.  
3

4 **II. RESPONSE TO THE RECOMMENDATIONS OF THE STAFF**  
5

6 **Q: Does Ms. Reynolds on behalf of the Staff conclude that the Decoupling**  
7 **Mechanism has “worked” or that it should be continued?**

8 A: No. Ms. Reynolds describes her concerns with the nature of the Evaluation  
9 Report and the lack of any analysis that documents that the Decoupling  
10 Mechanism has had impacts that can be isolated to the structure of the pilot  
11 program and the intended incentives associated with the purpose of the  
12 Mechanism. As a result, Ms. Reynolds recommends that the Commission phase  
13 out the Decoupling Mechanism.

14 **Q: Does the Staff then recommend a totally different approach to rate design**  
15 **that should be adopted in this proceeding?**

16 A: Yes. Rather than limiting the Staff’s review to whether the Decoupling  
17 Mechanism should be continued or not, Ms. Reynolds embarks on a discussion of  
18 rate design and recommends and calculates the bill impacts for a variety of  
19 significant changes to the current rate design for Schedule 101 customers, most of  
20 whom are residential customers. She then recommends that the current monthly  
21 customer charge of \$5.75 be increased to \$10 per month over a two year period, a  
22 74% increase in this charge. She also proposes that the usage charge be reduced  
23 to reflect the allocation of revenue from variable to fixed charges. However, the

1 ultimate result of such a rate design is to shift cost recovery to lower use  
2 customers and lower the total bill for the highest use customers because of the  
3 impact of the reduced usage rate. I fail to see how this approach sends the proper  
4 conservation signal. Rather, the purpose of this proposal appears to be to assure  
5 Avista that it will recover more of its fixed costs through this revised rate design  
6 and she provides no evidence to suggest that such a significant change in  
7 customer rate design will have the intended impact associated with the stated  
8 purpose of the Decoupling Mechanism. Ms. Reynolds appears more concerned  
9 about creating theoretically proper rate designs rather than targeting a mechanism  
10 to providing an incentive that responds to the Company's stated reasons for not  
11 investing more in efficiency programs.

12 **Q: Are you aware of any study or analysis that has demonstrated that**  
13 **increasing the fixed monthly customer charge results in more efficiency**  
14 **spending or lessens the typical utility's arguments in support of the adoption**  
15 **of decoupling schemes?**

16 A: No. I am not aware of any analysis that documents that the increase in the fixed  
17 customer charge will result in an incentive to the utility to expand cost effective  
18 DSM programs or budgets. Nor am I aware of any analysis which demonstrates  
19 that the reliance on an increased monthly customer charge will incent the utility to  
20 drop proposals for decoupling programs or other policies that seek to decouple  
21 profits from relying on sales revenues. In other words, it is likely that Avista will  
22 agree with an increase in the monthly customer charge, but continue to argue in  
23 support of the continuation of the Decoupling Mechanism or some other similar  
24 incentive mechanism. Therefore, I do not recommend that the Commission

1 consider the Staff's rate design proposal in the context of its review of the  
2 pending Decoupling Mechanism.

3 **Q: Do you find that the Staff's proposal to subsidize the monthly customer**  
4 **charge for limited income customers is an adequate response to the bill**  
5 **impacts associated with an increase in the monthly customer charge?**

6 A: I appreciate the underlying concern that has motivated the proposal that limited  
7 income customers enrolled in LIHEAP and LIRAP pay no more than a \$3  
8 monthly customer charge. Unfortunately, the proposal is not a sufficient response  
9 to the underlying problem that low use customers generally will pay higher  
10 monthly bills under the Staff's proposal. As documented in the Evaluation  
11 Report, 15.9% of Avista's natural gas customers have a household income equal  
12 or less than 125% of poverty guidelines (17.3% of all customers served by Avista  
13 for both gas and electric service). Furthermore, limited income customers  
14 generally have a lower usage profile than other residential customers. As a result,  
15 more of these customers will fall into the low use category and suffer bill  
16 increases as a result of the implementation of the Staff's proposal. However, even  
17 this large percentage understates the incidence of poverty among Avista's  
18 residential customers. Based on my experience, the use of the 125% of poverty  
19 definition to enroll customers in utility-sponsored low income bill payment  
20 assistance programs is low. If a more typical definition of 150% of federal  
21 poverty is used to calculate the number of limited income customers served by  
22 Avista, this estimated percentage used in the Evaluation Report increases from  
23 17.3% to 22.2%, almost 9,000 more customers. Using the 200% of federal  
24 poverty guidelines, slightly over 30% or 56,643 customers would qualify under

1 the current federal guidelines for low income assistance.<sup>2</sup> Finally, approximately  
2 30% of the limited income customer group (defined as 125% of poverty used in  
3 the Evaluation Report) participates in either LIHEAP or LIRAP. Therefore, the  
4 recommendation to target additional bill payment assistance to only those limited  
5 income customers identified as participating in LIHEAP or LIRAP would not  
6 provide a sufficient safety net to prevent the adverse impacts of the Staff's  
7 proposed rate design. Far too many low use and limited income customers would  
8 suffer higher bills, much higher than the impact of the Decoupling Mechanism,  
9 under the Staff's approach.

10 **Q: Please discuss in more detail the higher bills that lower usage customers will**  
11 **incur under the Staff's proposal to increase the monthly customer charge.**

12 A: As part of the Staff's testimony, Ms. Reynolds provided Exhibit No. \_\_\_\_ (DGR-  
13 2) that contained the Staff's Bill Analysis Model. This Exhibit calculated the  
14 impacts of various rate design options considered by the Staff, including the  
15 increase in the monthly customer charge, and compared the bill impact to current  
16 rates for three types of residential customers. Customer 1 reflects average usage.  
17 Customer 2 reflects lower usage. Customer 3 reflects a higher usage profile than  
18 average. However, this Exhibit only calculated bill impacts for these customer  
19 profiles for the \$8 per month customer charge. Even under this scenario,  
20 Customer 1 would see a \$29 reduction in the total bill, Customer 2 would  
21 experience a \$13 total bill increase (equal to 4.4%), and Customer 3 would see a

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<sup>2</sup> Exhibit K1, pages 9-12 of the Evaluation Report calculates the estimated number of Avista's customers by a range of income levels from 50% of poverty to 200% of poverty. These exhibits were submitted with Mr. Hirshkorn's work papers.

1 \$37 total bill decrease. The change to a \$8 monthly customer charge adversely  
2 impacts low use customers compared to average and high use customers.

3 **Q: Did Ms. Reynolds provide calculations to show the impact of the full increase**  
4 **to a \$10 monthly customer charge?**

5 A: While Ms. Reynolds did not discuss or include the impacts of moving to the  
6 Staff's recommended \$10 monthly customer charge in her testimony, her work  
7 papers contained this analysis. I attach the Bill Analysis Model Results for the  
8 \$10 monthly customer charge from Ms. Reynolds' work papers as Exhibit No.  
9 \_\_\_\_ (BRA-3).<sup>3</sup> This change results in an even more dramatic bill increases for  
10 lower usage customers. Staff's proposal would result in a \$14 increase in the total  
11 bill for Customer 1, a \$42 increase in total bill for Customer 2, and a \$9 bill  
12 increase for Customer 3. Customer 2, representing lower usage customers, would  
13 experience a 14.2% increase in the total annual bill. These results are significant  
14 and will have a discriminatory impact on limited income customers, who, on  
15 average, use less natural gas than the average residential customer. In addition,  
16 this analysis also demonstrates that that the elimination of the Decoupling  
17 Surcharge and the lower volumetric rate change associated with the Staff's  
18 recommendation to move to a \$10 monthly customer charge has the most  
19 dramatic impact on the highest usage customers in Schedule 101. As a result, it is  
20 likely that the highest usage commercial customers in Schedule 101 would see a

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<sup>3</sup> Ms. Reynolds reduced the volumetric rate ( a larger reduction for the higher monthly customer charge) in both the \$8 and \$10 monthly customer charge bill analysis which was intended to assure revenue neutrality for the Schedule 101 customers. I do not know if her projected change in volumetric rates is appropriate. Also, Ms. Reynolds' analysis retained the Decoupling Surcharge for the \$8 monthly customer charge impacts, but eliminated it for the \$10 monthly customer charge bill impact analysis to reflect her recommendation to phase out the Decoupling Surcharge. My chart merely replicates her analysis.

1 bill reduction under the Staff's proposal, but that most residential customers  
2 would see a bill increase.

3 **III. RESPONSE TO THE RECOMMENDATIONS OF THE COALITION**

4

5 **Q: Do you agree with Ms. Glaser's recommendation that the Decoupling**  
6 **Mechanism should be continued with a specific spending target added for**  
7 **limited income efficiency programs?**

8 A: No. There are several problems with Ms. Glaser's recommendation. First, as  
9 documented by Ms. Glaser's own testimony and the testimony of Staff and Public  
10 Counsel, there is a widespread view that Avista has not met its burden of proof  
11 associated with this evaluation of the Decoupling Mechanism. As a result, it  
12 would not be appropriate to respond to the underlying defects associated with the  
13 Decoupling Mechanism by keeping it in place but then mandating a higher level  
14 of spending for limited income DSM. Second, the fact that the Commission  
15 would need to mandate that Avista target higher spending levels for limited  
16 income DSM is an indictment of the failure of the Decoupling Mechanism to  
17 provide sufficient incentives. The Commission could require Avista to target  
18 additional spending to limited income DSM programs at any time. There is no  
19 need to link spending levels for limited income DSM programs to the Decoupling  
20 Mechanism's continuation. Finally, Ms. Glaser did not provide any details as to  
21 the level or amount of any targeted spending for limited income DSM or any  
22 description as to how her proposal would actually be reflected in the current  
23 deferral formula and operation of the Decoupling Mechanism. As a result, the

1 Coalition's proposal, while welcome, should not be considered as a means for  
2 reform the current Decoupling Mechanism.

3 **IV. RECOMMENDATIONS**

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5 **Q: Do you have any changes to your recommendations as set forth in your**  
6 **Direct Testimony?**

7 A: No. As a matter of convenience, I repeat my recommendations as reflected in my  
8 Direct Testimony. I recommend that the Commission terminate this program as  
9 of June 30, 2009 and not allow any recovery of deferrals recorded after June 30,  
10 2009. First, it is clear that limited income customers and many more payment  
11 troubled customers pay higher prices for essential natural gas service and do not  
12 receive any of the potential direct benefits from the more expensive DSM  
13 programs that Avista has implemented. Furthermore, this decoupling experiment  
14 appears to have stimulated Avista to create a very expensive media campaign to  
15 drive higher income customers to obtain rebates for certain appliances that were  
16 then claimed by Avista to result in even higher usage reductions compared to  
17 historical levels of claimed savings for several expensive appliances and  
18 investments. As a result, higher income customers can participate in programs  
19 that reduce their natural gas bills, but lower income customers do not have this  
20 option and must pay the higher prices for natural gas service without any realistic  
21 opportunity to participate in these programs. Third, there appears to be a  
22 legitimate basis for questioning Avista's actual energy savings from these more  
23 expensive DSM programs. This is particularly the case since the Evaluation

1 Report submitted in this proceeding was unable to actually confirm that the  
2 claimed energy savings have occurred based on a statistically valid analysis of  
3 customer bills and usage analysis. As a result, Avista has not, as required by the  
4 Commission, provided a “convincing demonstration that the mechanism has  
5 enhanced Avista’s conservation efforts in a cost-effective manner.”

6 **Q: Does this complete your testimony at this time?**

7 Yes.