Exhibit No. __(BJH-8T)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-090134

DOCKET NO. UG-090135

DOCKET NO. UG-060518

(consolidated)

REBUTTAL TESTIMONY OF

BRIAN J. HIRSCHKORN

REPRESENTING AVISTA CORPORATION

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

A. My name is Brian J. Hirschkorn and my business address is 1411 East Mission Avenue, Spokane, Washington. I am presently assigned to the State and Federal Regulation Department as Manager of Pricing.

Q. Would you briefly describe your duties?

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

Q. Would you briefly describe your educational background?

A. I am a 1978 graduate of Washington State University with Bachelor degrees in Business Administration and Accounting.

Q. Have you filed direct testimony in this proceeding?

A. Yes. I have filed direct testimony in this case addressing rate spread and rate design, as well as the Decoupling Mechanism.

Q. What is the scope of your rebuttal testimony?

A. The bulk of my testimony will describe the "New Customer Adjustment" and why it is imperative that it be retained as part of the monthly deferral calculation if the Decoupling Mechanism is continued. I will also briefly address: 1) whether Titus "did what it was supposed to do" in its Evaluation of the Decoupling Mechanism, and 2) why the Commission Staff's proposed increase in the Schedule 101 customer charge is an unacceptable substitute for continuation of the Decoupling Mechanism.

NEW CUSTOMER ADJUSTMENT

Q. Mr. Brosch states at Page 3 of his testimony that there is a problem with the New Customer Adjustment. He states that "(t)his includes the flawed New Customer Adjustment that results in excessive compensation under the design of the current Mechanism." Could you briefly describe the "New Customer Adjustment"?

A. Yes. To the extent the Company has added customers since the test year, these new customers increase Current Therm Sales as compared to the Base Therm Sales. As part of the monthly (decoupling) deferral calculation, the New Customer Adjustment simply removes the cumulative usage for customers added since the test (base) year. This provides for an "apples to apples" comparison – a comparison of the usage for customers during the test year to <u>the usage for those same customers</u> for the current period.

Q. Why do you remove the usage for new customers in the deferral calculation?

A. The purpose of the Decoupling Mechanism is to recover (or refund) the difference between the (weather-normalized) margin received by the Company compared to the level of margin during the corresponding month of the test year <u>approved</u> by the Commission in the Company's last general filing. The objective is to determine whether the therm usage per customer that was included in the last rate case has increased or decreased for that same customer base. In order to properly measure that difference in therm usage, it is necessary to use the same customer base, and not include the usage from new customers that were added after the last rate case. If the usage/margin for new customers added since the test year is not removed, it would be an "apples to oranges" comparison and that would be the equivalent of stating that there are no (zero) incremental costs associated with serving new customers. As I will show later, that just isn't the case.

Q. Mr. Brosch states that while usage per customer has been declining, the increase in the number of customers allows the Company to recover its fixed costs. Is that true?

A. No. Mr. Brosch's assertion would only be true if there were little or no incremental costs required to serve new customers. Then and only then would it be reasonable to eliminate the New Customer Adjustment, as the margin received from these customers would truly be incremental with no offsetting costs. Again, that is not the case. Mr. Brosch, at Page 27, also states that "the only costs that can reasonably (be) considered as incremental fixed costs to provide service to new customers are costs to install and maintain a new service line and meter and any incremental monthly meter reading, billing, and remittance processing costs." He continues by stating that the estimated average monthly fixed cost for Schedule 101 customers is $8.07, a number included in my direct testimony in UE-090134/UG-090135. However, this number represents the average <u>embedded</u> cost for these items and has no direct correlation to the <u>incremental</u> cost of providing service to new customers.

Q. Why would the incremental cost to serve a new customer be substantially different than this amount ($8.07 per month)?

A. The incremental cost of the items mentioned above is substantially higher than the embedded cost because of both inflation and depreciation of embedded costs. Further, these costs do not include the cost of new distribution mains, which is a substantial incremental component in the average cost of serving new customers. Much of the time, distribution mains must be installed to reach new customers; Mr. Brosch's $8.07 "cost" assumes that the Company would never have to extend distribution mains to serve new customers.

Q. Mr. Brosch states in Footnote 25 that "Avista's Response to Public Counsel Data Request No. 442(b) suggests a monthly incremental cost for average new residential customers as high as $32.42. Is this correct?

A. Yes, the amount included in the referenced footnote is correct. The Company provided to Public Counsel in Data Request 442 the estimated average monthly fixed cost for Schedule 101 customers, which was $32.42 for 2008.

Q. Do you have similar information for 2007?

A. Yes. The monthly incremental cost per customer in 2007 was $20.32, considerably less than the cost in 2008. The weighted average incremental cost for the two-year period was $26.05 per customer per month.

Q. What is the average new margin revenue from a new customer, at current rate levels?

A. As noted in on Page 29, line 8 and Footnote 26 of Mr. Brosch's testimony, the new margin revenue for an average new customer is $22.45 per month.

Q. In summary, what is the incremental cost of connecting a new customer as compared to the margin received from new customers?

A. During 2007 and 2008 the average fixed cost to serve a new customer was $26.05 per customer, per month, as compared to new margin of $22.45 per customer, per month. Therefore, the Company does not realize new margin in excess of its incremental costs for new customers.

Q. Can you provide a simple example of the impact of not removing new customers' usage from Current Therm Sales (usage)?

A. Yes. Below in Table 1 is an example of this impact using January 2007 as an example (which was provided as part of Exhibit No. ____(BJH-3)). Holding constant all other items, I have adjusted only the line "Deduct New Customer Usage". The actual deferral calculation, including the New Customer Adjustment, showed that the Company under-collected $126,606 in margin. However, by eliminating the New Customer Adjustment, it would appear that the Company over-collected $207,117 in margin, for a swing of nearly $333,000.

Table 1:

	With New Customer Adj.	Without New Customer Adj.
	January 2007	January 2007
2007 Actual		
Schedule 101		
Schedule 101 Billed Therms	21,292,599	21,292,599
Deduct New Customer Usage	(1,620,408)	0
Deduct Prior Month Unbilled Therms	(11,318,911)	(11,318,911)
Add Current Month Unbilled Therms	12,417,092	12,417,092
Add Weather Adjustment	(1,160,271)	(1,160,271)
Weather Adj Calendar Therms	19,610,101	21,230,509
Weather Adj Calendar Therms	19,610,101	21,230,509
Less Test Year Therms	20,224,840	20,224,840
Therm Difference	(614,739)	1,005,669
Times Current Margin Rate per Therm	0.20595	0.20595
Revenue Excess (Shortfall)	**($126,606)**	**$207,117**

Q. Given this information, would the Company even consider continuation of the Decoupling Mechanism without the "New Customer Adjustment"?

A. Absolutely not. The "New Customer Adjustment" is a critical component of the Decoupling Mechanism which simply removes the cumulative usage for customers added since the test (base) year, allowing for an "apples to apples" comparison of the usage for customers during the test year to the usage for those same customers for the current period.

DECOUPLING EVALUATION REPORT

Q. Turning now to the Evaluation, filed as Exhibit No. ____ (BJH-2) with the Company's direct testimony addressing the Decoupling Mechanism, didn't you describe the process of developing the Evaluation Plan and the selection of an Evaluator in that testimony?

A. Yes. I describe these processes on pages 6 – 8 of my direct testimony.

Q. Did the Evaluator (Titus) do what they were supposed to do, as set out by the Evaluation Plan?

A. Yes. As noted on Page 2 of Titus' Evaluation, "The scope of this report is to evaluate Avista's Gas Decoupling Mechanism Pilot and respond to specific questions in the Evaluation Plan developed in a collaborative approach by Avista and the Advisory Group to 'allow the Commission, Advisory Group members and interested parties to fully examine the Mechanism.' This report does not evaluate the appropriateness of decoupling in general, the design of the Mechanism, or the validity of the positions or opinions of the Advisory Group members on individual aspects of the Mechanism." [1]

Q. Staff witness Ms. Reynolds states at Page 7 of her testimony that: "As the final report was being reviewed, Staff strongly urged the Company to allow the

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[1] "Evaluation of Avista Natural Gas Decoupling Mechanism Pilot" Report, Page 2

consultant to draw conclusions and make recommendations about the design of the mechanism …". Why didn't the Company believe that this was a reasonable request?

A. The most important part of the quote from Ms. Reynolds is: *"As the final (Evaluation) report was being reviewed…"*. The scope of the Evaluation Plan, which was filed with the Commission months earlier, was developed in a collaborative and was agreed to by the Advisory Group. The Evaluation Plan specifically did not call for the Evaluator to come to any conclusions regarding either the design of the Mechanism or decoupling in general. It was the belief of the Advisory Group, including Staff, that it was more important for the Parties to draw their own conclusions based on the findings in the final Evaluation. Further, Titus represented to all parties that they wished to stay independent on the decoupling issue. Given all this and the timing of Ms. Reynolds's request, Avista did not believe that this was a reasonable request.

Q. On Page 9 of The Energy Project witness Ms. Alexander's testimony, she states that the Evaluation Report did not study/evaluate several important variables. Wasn't The Energy Project part of the Advisory Group that developed the Plan?

A. Yes. Mr. Chuck Eberdt actively participated on the Advisory Group. Any party, including Mr. Eberdt, could have requested that the variables noted by Ms. Alexander, namely the impact of advertising, price elasticity, free ridership, electric DSM, and the overall economy, be included in the Evaluation. To say now that the Evaluation Report is lacking because it did not address items that were not included in the Evaluation Plan is unwarranted.

Q. In summary, is it your view that the criticism of the Evaluation Report, and Titus, is misplaced?

A. Yes. As I previously stated, Titus completed the Evaluation under the parameters set forth in the Plan, the RFP and the Memorandum of Understanding, developed by the Advisory Group.

CUSTOMER CHARGE

Q. In Mr. Norwood's rebuttal testimony, he states that Staff Witness Reynolds' proposal to increase the Schedule 101 customer charge to $10 per month (and eliminate decoupling) would not be a substitute for decoupling. Why not?

A. Based on the Company's revised decoupling proposal included in Mr. Norwood's testimony, the monthly customer charge would need to be $17.44 in order to provide the same level of weather-normalized margin. Table 1 below shows the calculation of this "equivalent" customer charge.

Table 2:

		100% of Present Margin	Company Rebuttal Proposal	Staff Proposal
Volumetric Margin		$ 16.70	$ 11.69	$ -
Customer Charge		$ 5.75	$ 5.75	$ 10.00
Total Margin		$ 22.45	**$ 17.44**	$ 10.00
Percent of Total Margin			78%	45%

As shown in first column, the present monthly margin for a Schedule 101 customer is $22.45, consisting of the $5.75 customer charge and the volumetric margin of $16.70, determined by multiplying the average monthly usage of 69 therms by the present margin of $0.24201 per therm. As shown in second column, using the Company's revised decoupling deferral proposal of 70% of lost margin as noted in Mr. Norwood's testimony, rather than the present 90%, results in a volumetric margin of $11.69. As shown, adding this amount to the customer charge of $5.75 results in an equivalent monthly customer charge of $17.44. Ms. Reynolds' proposed customer charge of $10 per month just doesn't provide a reasonable level of margin recovery and is not a substitute for decoupling.

Q. Does this conclude your rebuttal testimony?

A. Yes.