

Exhibit T ____ (KLE-1T)
Docket No. UE-010395
Witness: Kenneth L. Elgin

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Avista Corporation's) DOCKET NO. UE-010395
Petition for Recovery of Expenditures)
Related to Electric Deferral Mechanism)
_____)

**TESTIMONY OF
KENNETH L. ELGIN**

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

RE: AVISTA PETITION FOR 37% EMERGENCY SURCHARGE

August 24, 2001

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Kenneth L. Elgin. My business address is Chandler Plaza Building,
3 1300 South Evergreen Park Drive SW, Olympia, Washington, 98504-7250.

4

5 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

6 A. I am the Case Strategist for the Regulatory Services Division of the Washington Utilities
7 and Transportation Commission.

8

9

I. QUALIFICATIONS

10 Q. WOULD YOU DESCRIBE YOUR EDUCATION AND RELEVANT EMPLOYMENT
11 EXPERIENCE?

12 A. I received a Bachelor of Arts from the University of Puget Sound in 1974 and a Master of
13 Business Administration from Washington State University in 1980. In January, 1985 I
14 was employed as a Utilities Rate Research Specialist for the Utilities Division. My initial
15 assignments in that capacity were devoted exclusively to financial analysis and rate of
16 return issues for all regulated utilities. In December 1989 I was promoted to the position
17 of Assistant Director for Energy. In that capacity, I was responsible for the policy
18 direction of the Utilities Division's electric, natural gas and natural gas safety programs.
19 In 1995 I assumed my present position as an analyst for the Division. In my current
20 assignment I consult with or represent Staff on all aspects of energy cases presented to
21 the Commission in the context of litigation. Finally, I am a resource for the entire
22 Division and provide advice on many diverse regulatory filings that come before the
23 Commission. I have testified before the Commission on many occasions as outlined in

1 Exhibit ____ (KLE-2). I have testified before the Federal Energy Regulatory Commission
2 on issues related to rate design and risk for interstate natural gas pipelines. I have also
3 testified on several occasions in Superior Court regarding the regulation of investor-
4 owned utilities pursuant to Washington=s public service laws. I have also testified in
5 Superior Court on the issue of rate of return and valuation pursuant to public service laws
6 as administered by the Commission under Title 80 RCW. I have been the lead analyst for
7 numerous tariff filings and in this capacity I have presented Staff recommendations to the
8 Commission at its regular open public meetings. Finally, I have made several studies of
9 the cost of capital for energy companies in rate case filings all of which led to a
10 settlement of this issue.

11 During my approximately seventeen years of experience working on energy and
12 financial issues, I have developed a thorough working knowledge of both the operations
13 and financial profiles of all the energy utilities regulated by the Commission.

14
15 Q. WOULD YOU PLEASE EXPLAIN YOUR ASSIGNMENT IN THIS DOCKET?

16 A. I am responsible for the policy testimony for Staff in the analysis of Avista's petition to
17 re-open the Settlement Stipulation previously approved by the Commission in this
18 docket. In addition, I provide an analysis as to what standards the Commission should
19 consider in evaluating Avista's petition for a 37% surcharge in its electric rates to pay for
20 ongoing expenses the Company has deferred and is proposing to continue to defer on its
21 books through December 31, 2003.

1 Q. ARE YOU SPONSORING ANY EXHIBITS?

2 A. Yes. I am sponsoring Exhibits _____ (KLE-2) through (KLE-7).

3

4 **II. SUMMARY OF THE ISSUES IN THIS PHASE OF THE DOCKET**

5 Q. PLEASE DESCRIBE THE ISSUES FOR THIS PHASE OF THE DOCKET.

6 A. The Notice of Second Prehearing Conference sets forth 3 issues: whether the Petition is
7 consistent with the Settlement Stipulation; whether proposed Schedule 93, and the rates,
8 terms and conditions requested by the Company therein, should be placed into effect
9 promptly, subject to refund; and whether the deferral mechanism currently authorized
10 should continue in effect and, if so, on what terms and conditions.

11 The Commission's Second Supplemental Order in this docket also noted the issue
12 as to whether the proposed Schedule 93, and the rates, terms and conditions therein are
13 fair, just, reasonable and sufficient, and the Company's plan to mitigate the deferred
14 power costs.

15

16 **III. SUMMARY OF STAFF'S RECOMMENDATIONS**

17 Q. PLEASE SUMMARIZE STAFF'S RECOMMENDATIONS.

18 A. The Company's petition to amend is consistent with the Settlement Stipulation.
19 Paragraph 4 of the Settlement Stipulation permits a petition to amend on the basis of
20 worsening hydro conditions, which has occurred. Mr. Schooley addresses this issue.

21 A 32.6% rate increase should be permitted for a period of 90 days, subject to
22 continuation, but only if the Company satisfies three conditions.

- 1 • The deferred accounting treatment previously authorized for power supply
2 expenses should terminate effective June 30, 2001.
- 3 • The remaining phase (Phase II) of this docket should be resolved
4 expeditiously. The Commission’s Second Notice of Hearing sets forth the
5 issues to be addressed in Phase II. The Commission should order Avista,
6 on a September 17, 2001 deadline, to either file a pleading affirming that
7 the evidence it submitted on March 23, 2001 is its direct case on those
8 issues, or file a new direct case on those issues.
- 9 • The Company should be directed to file a general rate case by September
10 28, 2001. That filing would include the power supply issues required by
11 the Commission in its order in the last general rate case, Docket No. UE-
12 991606. If the Company believes that emergency rate relief is warranted
13 beyond the initial ninety-day term of the 32.6% rate increase, it would file
14 testimony and exhibits in the context of the general rate case,
15 demonstrating the need for interim rate relief under the Commission’s
16 standards.

17 Mr. Schooley provides the financial analysis supporting the 32.6% rate increase.

18 I am responsible for the other aspects of these recommendations.

19 Finally, any rate relief that is authorized in this docket should be collected by
20 Avista on a single rate per kwh basis. Mr. Parvinen addresses this issue.

21

22 **Q. DURING THE PRE-HEARING CONFERENCE, ADMINISTRATIVE LAW JUDGE**
23 **MOSS REQUESTED THE PARTIES TO PROVIDE SPECIFIC**

1 RECOMMENDATIONS REGARDING THE PROPER ACCOUNTING FOR ANY
2 INCREMENTAL REVENUES THE COMMISSION MAY AUTHORIZE, AND THE
3 RELATIONSHIP OF THESE REVENUES TO THE DEFERRED AMOUNTS FOR
4 POWER SUPPLY ON THE COMPANY'S BOOKS. WHAT ARE STAFF'S
5 RECOMMENDATIONS ON THESE ISSUES?

6 A. Avista should be ordered to separately book any revenues the Commission may
7 authorize, as they are received. Once the issues in Phase II of this docket are resolved,
8 these revenues would be credited to those deferred power costs on Avista's books that are
9 found to be appropriate for recovery. Mr. Parvinen addresses the accounting aspects of
10 this recommendation.

11
12 **IV. BACKGROUND OF PRIOR REGULATORY EVENTS**

13
14 Q. PLEASE PROVIDE FOR THE COMMISSION A REVIEW OF THE PRIOR FILINGS,
15 ORDERS AND PETITIONS RELATED TO THIS DOCKET REGARDING POWER
16 COST DEFERRAL ACCOUNTING.

17 A. On June 23, 2000 the Company filed a petition requesting authority to defer certain
18 power supply expenses. The Company requested such approval for a period of 12
19 months ending June 30, 2001. The Company also requested that the deferred amounts be
20 amortized over a ten-year period, if these costs were not included in a Power Cost
21 Adjustment mechanism (PCA) the Company was proposing in its pending general rate
22 case, Docket No. UE-991606. Avista's June 23, 2000 petition was assigned Docket No.
23 UE-000972. That petition is my Exhibit ___(KLE-3).

1 Q. IN GENERAL TERMS, WHAT IS A POWER COST ADJUSTMENT MECHANISM,
2 OR PCA?

3 A. A PCA is designed to effect a change in rates based upon certain changes in power costs.
4 The types of changes in power costs reflected in a PCA are determined by the
5 Commission.

6
7 Q. DID THE COMMISSION APPROVE ANY SORT OF PCA IN DOCKET NO.
8 UE-991606?

9 A. No.

10

11 Q. IN ITS JUNE 23, 2000 PETITION, DID AVISTA REQUEST RATE TREATMENT OF
12 ANY POWER COSTS IT EXPECTED TO DEFER UNDER THIS DEFERRAL
13 ACCOUNTING?

14 A. No. The Company did not request a surcharge, or any other rate treatment of these
15 deferred costs.

16

17 Q. PLEASE SUMMARIZE THE COMPANY'S ASSERTIONS IN SUPPORT OF ITS
18 JUNE 23, 2000 PETITION.

19 A. The Company asserted it was experiencing unprecedented prices for purchased power in
20 the secondary wholesale market. The Company claimed that the Commission had
21 previously provided for deferred treatment of extraordinary expenses, and that market
22 conditions warranted deferred accounting treatment of these power costs.

23

1 Q. PLEASE DESCRIBE THE COMMISSION’S ACTION IN RESPONSE TO AVISTA’S
2 JUNE 23, 2000 ACCOUNTING PETITION.

3 A. On August 9, 2000 the Commission issued its order approving the deferral accounting.
4 The Commission authorized Avista to defer certain power supply expenses. The
5 Commission found that the deferred accounting treatment proposed by Avista was
6 reasonable. A copy of the Commission’s August 9, 2000 Order is my Exhibit ___ (KLE-
7 4).

8
9 Q. DID THE COMMISSION’S AUGUST 9, 2000 ORDER AUTHORIZE AVISTA TO
10 CREATE A REGULATORY ASSET WITH RESPECT TO THE POWER COSTS
11 DEFERRED?

12 A. No. Staff witness Mr. Lott will testify in detail on this issue.

13
14 Q. DID THE COMMISSION IMPOSE ANY CONDITIONS ON AVISTA IN THE
15 AUGUST 9, 2000 ORDER?

16 A. Yes. The Commission stated that its order “shall in no way affect the authority of the
17 Commission over rates, services, accounts evaluations, estimates, or determination of
18 cost or any matter whatsoever that may come before it, nor shall anything herein be
19 construed as an acquiescence in any estimate or determination of cost claimed or
20 asserted.” (Ordering paragraph 4).

21 The Commission also conditioned its approval of Avista’s petition in other
22 important respects. The Commission stated that under its general ratemaking authority,
23 it “has the ability in subsequent Avista rate proceedings to evaluate the reasonableness of

1 the Company's expenditure." The Commission also stated, "The Company bears the
2 burden of proof in any such proceeding regarding these matters to show that such costs
3 were prudently incurred, that Company-owned resources have been optimized for the
4 benefit of retail customers, and that recovery of these costs through a deferral mechanism
5 is appropriate." (Ordering paragraph 3).

6
7 Q. DID AVISTA SEEK TO AMEND THE AUGUST 9, 2000 ORDER?

8 A. Yes. On December 20, 2000 Avista filed a petition to modify the August 9, 2000 Order.
9 The Company proposed to modify the deferral accounting procedures to include power
10 supply expenses used to meet increased system loads. The petition was assigned the
11 same docket number: Docket No. UE-000972. Avista's December 20, 2000 petition is
12 my Exhibit ___(KLE-5).

13
14 Q. PLEASE SUMMARIZE THE ASSERTIONS THE COMPANY MADE IN ITS
15 DECEMBER 20, 2000 PETITION TO SUPPORT ITS REQUEST TO MODIFY THE
16 AUGUST 9, 2000 ORDER.

17 A. Avista asserted that the original deferral accounting was not working, since it did not
18 apply to power purchases associated with increased system load requirements.

19
20 Q. IN ITS DECEMBER 20, 2000 PETITION, DID AVISTA REQUEST RATE
21 TREATMENT OF ANY POWER COSTS IT EXPECTED TO DEFER UNDER THIS
22 DEFERRAL ACCOUNTING?

1 A. No. The Company did not request a surcharge, or any other rate treatment of these
2 deferred costs.

3

4 Q. WHAT ACTION DID THE COMMISSION TAKE WITH RESPECT TO AVISTA'S
5 DECEMBER 20, 2000 PETITION SEEKING TO MODIFY THE PREVIOUSLY-
6 AUTHORIZED DEFERRAL ACCOUNTING?

7 A. On January 24, 2001, the Commission issued an Order modifying the deferred
8 accounting. This modification enabled Avista to account for increasing wholesale power
9 supply costs and load growth on the Company's system. This January 24, 2001 Order is
10 my Exhibit ___(KLE-6).

11

12 Q. DID THE COMMISSION IMPOSE ANY CONDITIONS ON AVISTA IN THE
13 JANUARY 24, 2001 ORDER?

14 A. Yes. The Commission accepted the proposed modification only if the Company filed
15 testimony and exhibits by mid-March 2001 to demonstrate: "a) the prudence of the
16 incurred power costs; b) the optimization of Company-owned resources to the benefit of
17 retail customers; c) the appropriateness of recovery of power costs through a deferral
18 mechanism; d) a proposal for cost of capital offsets to recognize the shift in risk from
19 shareholders to ratepayers, and e) Company's plan to mitigate the deferred power costs."
20 (Ordering paragraph 3). The Commission also reiterated its earlier condition that
21 approval "shall in no way affect the authority of the Commission over rates, services,
22 accounts evaluations, estimates, or determination of cost or any matter whatsoever that

1 may come before it, nor shall anything herein be construed as an acquiescence in any
2 estimate or determination of costs claimed or asserted.” (Ordering paragraph 4).

3
4 Q. DID THE COMMISSION’S JANUARY 24TH ORDER PROVIDE FOR THE
5 CREATION OF A REGULATORY ASSET WITH RESPECT TO THE POWER
6 COSTS DEFERRED?

7 A. No. Staff witness Mr. Lott provides detailed testimony on this issue.

8
9 Q. WAS IT IMPORTANT TO STAFF THAT THE COMMISSION REQUIRE AVISTA
10 TO FILE A CASE ADDRESSING THE ISSUES LISTED BY THE COMMISSION?

11 A. Yes. These requirements were very important for Staff. It was important that all of the
12 issues listed by the Commission be resolved before any deferred power costs would be
13 recovered. The Commission’s January 24th Order clearly spelled out the requirements
14 that Avista must satisfy in order for the deferred costs to be recoverable in rates. At that
15 time, it was uncertain whether the Company would recover these deferred expenses.
16 Resolution of the prudence issue and all of the other issues listed by the Commission
17 provided the conditions for potential recovery of these deferred costs.

18
19 Q. WHAT ACTION DID AVISTA TAKE IN RESPONSE TO THE COMMISSION’S
20 JANUARY 24, 2001 ORDER REQUIRING AVISTA TO FILE A CASE TO
21 DEMONSTRATE PRUDENCE OF THE DEFERRED POWER COSTS, AS WELL AS
22 TO SATISFY THE OTHER CONDITIONS RELATING TO THE PROPRIETY OF
23 RECOVERY OF SUCH COSTS?

1 A. On March 23, 2001, Avista filed evidence in response to the direction of the January 24,
2 2001 Order.

3
4 Q. PLEASE DESCRIBE THE KEY FEATURE OF THE COMPANY'S PROPOSAL IN
5 ITS MARCH 23, 2001 FILING.

6 A. The key feature in Avista's proposal was the Company's plan to eliminate the deferred
7 power costs without increasing rates. This led to the Settlement Stipulation.

8
9 Q. WHAT OCCURRED AFTER AVISTA MADE ITS MARCH 23, 2001 FILING?

10 A. After the Commission first set Docket No. UE-010395 for hearing, the parties entered
11 into settlement discussions. The Company's proposal to manage its power supply costs
12 and eliminate the deferred assets on its books, without increasing rates, had considerable
13 merit. On April 26, 2001 the parties filed a Settlement Stipulation proposing to resolve
14 the issues surrounding the power cost deferral amounts. The parties agreed the Company
15 should be allowed to manage its future power supply portfolio in order to offset all
16 amounts it had previously incurred, without raising its rates. The Settlement Stipulation is
17 in the record as Avista witness Mr. Norwood's Exhibit ___ (KON-4).

18
19 Q. WAS THE SETTLEMENT STIPULATION IMPORTANT TO STAFF IN ITS
20 EVALUATION OF AVISTA'S SITUATION?

21 A. Yes. It was very important. If successful, the Settlement Stipulation would have
22 eliminated the need to process a case addressing the prudence issue, as well as the many
23 other issues that were otherwise required to be addressed. Such cases are often resource

1 intensive and highly contentious. Staff has reached no definitive conclusions about
2 prudence, or the other issues to be addressed. That is reserved for Phase II of this docket.
3 But Staff believed the Company had a significant burden to demonstrate that it had acted
4 prudently in incurring these costs, and in justifying its entitlement to recovery based on
5 the conditions imposed by the Commission in its orders in Docket No. UE-000972. The
6 Settlement Stipulation, if it succeeded, eliminated the need to take issue with the
7 calculation of the deferred balance.

8
9 Q. DID THE COMMISSION APPROVE THE SETTLEMENT STIPULATION?

10 A. Yes. In its May 23, 2001 First Supplemental Order in this docket, the Commission
11 approved the Settlement Stipulation. This order is my Exhibit ___ (KLE-7).

12
13 **V. AVISTA'S PETITION TO AMEND THE SETTLEMENT STIPULATION**

14 Q. IN YOUR OPINION, ARE THE CONTINUED OPERATION OF THE DEFERRED
15 ACCOUNTING, AND THE ISSUES SURROUNDING THE AMOUNTS THE
16 COMPANY IS CARRYING ON ITS BALANCE SHEET, CRITICAL ELEMENTS IN
17 THE COMPANY'S EMERGENCY REQUEST?

18 A. Absolutely. The deferred accounting of these power supply costs is burdening the
19 Company's balance sheet, and Avista asserts that the financial community wants it
20 resolved. Avista's response is to propose substantial amendments to the Settlement
21 Stipulation.

22
23 Q. PLEASE SUMMARIZE THE DETAILS OF THE COMPANY'S PROPOSAL.

1 A. Avista petitions to amend the Settlement Stipulation in several significant ways. It seeks
2 a 37% emergency surcharge for 27 months, subject to refund based on resolution of the
3 remaining issues in this docket. This contrasts to Avista's original proposal that any
4 recoverable deferral amounts would be amortized over a ten-year period. Avista
5 proposes that the remaining issues be resolved in a rate case to be filed sometime in
6 November 2001. Avista proposes that any surcharge revenues be immediately credited
7 to the accounting deferral balances. Avista seeks to extend the deferral accounting an
8 additional 10 months, to December 31, 2003. Avista seeks to apply to the deferral
9 balance the PGE monetization credit (\$53.8 million as of December 31, 2002). Finally,
10 Avista seeks to include in the deferral operation and maintenance costs, as well as a
11 return of (depreciation) and a return on the capital costs of certain Company-owned
12 projects, including Coyote Springs II.

13
14 Q. DOES STAFF AGREE THAT THE SETTLEMENT STIPULATION SHOULD BE
15 AMENDED AS THE COMPANY PROPOSES?

16 A. No. As I outlined at the beginning of my testimony, Staff recommends the deferral
17 accounting be terminated, as soon as possible. Staff recommends the termination date of
18 June 30, 2001. Deferral accounting should not be extended. Emergency rate relief can
19 be implemented in the amount of 32.6%, but for 90 days, subject to continuation on a
20 showing of a continued need for interim relief in the general rate case. No surcharge
21 revenues should be credited to offset deferred power costs until Avista has proven
22 entitlement to recovery. The Company should be required to file a general rate case by
23 September 28, 2001. The other amendments the Company proposes should be rejected.

1 Staff witness Mr. Schooley provides the 32.6% figure. He also addresses the merits of
2 these other Company proposals to amend the Settlement Stipulation.

3
4 Q. PLEASE SUMMARIZE THE COMPANY'S CASE FOR A 37% EMERGENCY
5 SURCHARGE.

6 A. Avista's testimony and exhibits attempt to show that if the Company is not able to raise
7 rates by 37%, its current bond rating is in jeopardy and it will be unable to finance its
8 operations on reasonable terms and conditions. Avista asserts that it has a pressing need
9 for external cash (new debt and equity) to finance its operations, which includes
10 financing a major new generation project. The Company is requesting that the proposed
11 37% surcharge be immediately implemented, subject to refund. The Company states
12 that it will address the issues listed in the Commission's January 24, 2001 Order in a
13 general rate case to be filed in November of this year.

14
15 Q. IS AVISTA PERMITTED TO PETITION TO AMEND THE SETTLEMENT
16 STIPULATION UNDER THE TERMS OF THAT STIPULATION?

17 A. Yes. Section 4 of the Settlement Stipulation allows the Company to petition the
18 Commission to amend the Stipulation should unanticipated or uncontrollable events
19 occur that cause the deferral balance to increase substantially. Other parties are not
20 limited in the positions they may take in support of, or opposition to, any such petition.
21 According to the Company's petition, changing hydro and secondary market conditions
22 are the primary factors that have rendered its plan to manage these costs without a rate
23 increase untenable. Staff's review indicates that hydro conditions have worsened in a

1 manner justifying application of paragraph 4 of the Settlement Stipulation. Staff witness
2 Mr. Schooley provides testimony on this issue.

3
4 **VI. STANDARDS FOR EVALUATING AVISTA’S REQUEST FOR A 37%
5 SURCHARGE, AND RELATED CONSIDERATIONS**

6 Q. MR. ELGIN, BEFORE YOU FURTHER ADDRESS AVISTA’S REQUEST FOR A
7 37% SURCHARGE, WOULD YOU PLEASE DEFINE THE CONCEPTS OF
8 “SURCHARGE,” “INTERIM RATE RELIEF” AND “GENERAL RATE CASE” AS
9 THOSE TERMS HAVE BEEN USED BY THE COMMISSION?

10 A. The term surcharge is usually used to describe cost recovery for a specific type of
11 expenditure. Interim rate relief is temporary, emergency rate relief based on a financial
12 emergency, pending resolution of a general rate case. A general rate case is a proceeding
13 in which the utility’s cost of service (revenues, expenses, rate base and rate of return) is
14 before the Commission for the purpose of determining future permanent rates.

15
16 Q. HOW SHOULD AVISTA’S PROPOSED 37%, 27 MONTH EMERGENCY
17 SURCHARGE BE CLASSIFIED?

18 A. Avista’s emergency surcharge request is a request to raise rates for a single element of
19 Avista’s cost-of-service: power supply costs. Avista’s request fits best in the category of
20 a surcharge. Avista’s petition to amend the Settlement Stipulation is very clear that the
21 37% surcharge is directly related to the deferred power supply expenses of the utility and
22 the amortization of the deferred balance on the utility’s books. (E.g. Ex.____(GEE-T
23 page 2, lines 4-6, 9-10)). Avista’s case is what is commonly referred to as “single-issue

1 ratemaking.” At a minimum, this sort of case usually requires a demonstration of
2 prudence prior to inclusion in rates. Moreover, given rate shock customers will
3 experience under a rate request in the magnitude of 37%, the request should be processed
4 in the context of a general rate filing where the company is required to provide results
5 from all aspects of its operations.
6

7 Q. HAS THE COMMISSION REJECTED THE USE OF EMERGENCY SURCHARGES
8 FOR PURPOSES OF RECOVERING SPECIFIC EXPENSES OF A UTILITY?

9 A. Yes. In Cause No. U-80-111 involving Washington Natural Gas Company, the
10 Commission stated that an emergency surcharge was “a vehicle to compensate a utility
11 for extraordinary expenses and charges over which the utility has little or no control and
12 the cost thereof is passed on to the consumer on an actual or reasonably known and
13 measurable basis. A surcharge is not intended to be employed, nor will it be considered
14 by the Commission as a stopgap or piecemeal approach to a utility’s overall financial
15 requirements.” The request for surcharge was rejected, but the Commission granted
16 interim rate relief based on an overall evaluation of the company’s financial position, in
17 the context of a general rate case.

18 Another example involved Avista. In Cause No. U-83-26, the Company
19 requested interim rate relief in the form of a surcharge, in order to begin recovery of its
20 investment and operating costs of the Kettle Falls Project, which was just being placed
21 into service. A rate order in the general rate case was not expected for several months.
22 Despite the Company’s allegations that its financial posture would deteriorate absent the
23 surcharge, the Commission rejected any form of emergency rate relief associated with

1 Kettle Falls. The Commission required that the Company demonstrate the prudence of
2 that project in the context of the general rate case.

3
4 Q. ASSUMING AVISTA'S REQUEST FOR A SURCHARGE IS NOT REJECTED AS
5 INCONSISTENT WITH THE COMMISSION'S DECISIONS IN CAUSE NO. U-80-
6 111 AND CAUSE NO. U-83-26, WHAT STANDARDS SHOULD THE COMMISSION
7 APPLY TO EVALUATION OF AVISTA'S REQUEST FOR AN EMERGENCY
8 SURCHARGE TO COVER DEFERRED POWER COSTS?

9 A. Staff recommends the Commission's interim relief criteria be applied, but with a clear
10 recognition that this case does not arise in the context of a general rate case. The
11 Commission will not be able to address the overall revenue needs of the Company in this
12 docket for that reason. The interim relief criteria should be applied only if the Staff's
13 other recommendations are adopted. That is, the deferral accounting should terminate,
14 and any emergency rate increase should be for 90 days, subject to continuation. The
15 remaining phase of this docket should be resolved expeditiously. The Company should
16 file a general rate case by September 28, 2001. Continuation of any emergency rate relief
17 should be in the context of a general rate case.

18
19 Q. WHAT CRITERIA DOES THE COMMISSION APPLY IN DETERMINING
20 WHETHER A UTILITY QUALIFIES FOR INTERIM RATE RELIEF?

21 A. The Commission applies the following six criteria:

22 1) The Commission has authority in proper circumstances to grant interim rate relief to a
23 utility but this should be done only after an opportunity for an adequate hearing.

- 1 2) An interim rate increase is an extraordinary remedy and should be granted only where
2 an actual emergency exists or where necessary to prevent gross hardship or gross
3 inequity.
- 4 3) The mere failure of the currently realized rate of return to equal that approved as
5 adequate is not sufficient, standing alone, to justify the granting of interim relief.
- 6 4) The Commission should review all financial indices as they concern the applicant,
7 including rate of return, interest coverage, earnings coverage and the growth, stability
8 or deterioration of each, together with the immediate and short term demands for new
9 financing and whether the grant or failure to grant interim relief will have such an
10 effect on financing demands as to substantially affect the public interest.
- 11 5) Interim relief is a useful tool in an appropriate case to fend off impending disaster.
12 However, the tool must be used with caution and applied only where not to grant
13 would cause clear jeopardy to the utility and detriment to its ratepayers and
14 stockholders. That is not to say that interim relief should be granted only after
15 disaster has struck or is imminent, but neither should it be granted in any case where
16 full hearing can be had and the general case resolved without clear detriment to the
17 utility.
- 18 6) The commission must reach its conclusion with its statutory charge to "Regulate in
19 the public interest" in mind. This is our ultimate responsibility and a reasoned
20 judgment must give appropriate weight to all salient factors.

1 Based on my review, the first Commission order establishing these criteria was in 1972,
2 in Cause No. U-72-30 tr, involving Pacific Northwest Bell Telephone Company (“PNB”).
3 Given the time constraints of this case, I have done as thorough a review as I could of
4 Commission rate orders since the 1972 PNB Order. I conclude that the Commission has
5 consistently adhered to the criteria stated in that order.

6
7 Q. HOW ARE PROJECTED RESULTS USED IN ANALYZING WHETHER A UTILITY
8 QUALIFIES FOR INTERIM RATE RELIEF?

9 A. The Commission focuses on the utility’s immediate and near-term financing needs. In
10 the Washington Natural Gas Company case I referred to above, the Commission stated it
11 “will not consider or give weight to long-range economic projections but will concern
12 itself only with an analysis of existing and actual conditions and short-range projections,
13 which in the main are least subject to volatile economic winds and are more conducive to
14 credible reliability than long range plans.”

15
16 Q. DOES THE COMPANY’S DIRECT CASE SUPPORTING ITS 37% SURCHARGE
17 REQUEST PROVIDE AN EXPLICIT ANALYSIS OF THE INTERIM RATE RELIEF
18 STANDARDS PREVIOUSLY ESTABLISHED BY THE COMMISSION FOR
19 EVALUATING REQUESTS FOR INTERIM RATE RELIEF?

20 A. No. Mr. Ely states that the Company’s filing is consistent with the Commission
21 “previously articulated criteria,” but he does not state the criteria, nor does he explain that

1 these criteria have been applied in the context of a general rate case. (See Ex. T- ____
2 (GGE-T), p. 9, line 25 to p. 10, line 1).

3
4 Q. HAS AVISTA MADE ANY SHOWING THAT ALL ELEMENTS OF ITS ONGOING
5 CONSTRUCTION BUDGET ARE NECESSARY FOR IT TO CARRY OUT ITS
6 OBLIGATIONS AS A PUBLIC SERVICE COMPANY?

7 A. No.

8
9 Q. PLEASE EXPLAIN WHY THE COMMISSION SHOULD NOT EVALUATE THIS
10 SURCHARGE REQUEST IN THE CONTEXT OF THE STANDARDS FOR INTERIM
11 RATE RELIEF, ABSENT STAFF'S PROPOSED CONDITIONS?

12 A. Interim rate relief is a specific remedy for the Commission to use in the context of a
13 general rate case. This is precisely the context of the Commission's seminal order on
14 interim rate relief in 1972 in Cause No. U-72-30 tr, in which the Commission established
15 the interim rate relief criteria.

16
17 Q. WHY IS IT IMPORTANT FOR THE COMMISSION TO CONSIDER INTERIM RATE
18 RELIEF IN THE CONTEXT OF A GENERAL RATE PROCEEDING?

19 A. During a rate case, the Commission evaluates all the issues and related evidence to
20 determine the revenue requirements of the utility. The Commission may also evaluate a
21 request for interim rates to address an emergency condition. Avista's request in this case
22 is not definitively a request for interim rate relief. The Commission has before it an
23 emergency rate request to deal with a single issue: how do we deal with Avista's deferred

1 power supply costs on its balance sheet and the Company's projections that the deferred
2 balances will continue to grow? The Commission may look to the PNB Order for
3 guidance as to how we deal with this request, but it should consider other factors and
4 criteria in evaluating the request for relief.

5
6 Q. WHAT OTHER FACTORS SHOULD THE COMMISSION CONSIDER?

7 A. The Commission should consider the fact that it does not have restated and pro forma
8 results of operations before it. It should require a general rate filing for that reason. The
9 Commission should also consider that a 37% rate increase constitutes rate shock. The
10 conditions Staff has recommended are necessary and reasonable in that context. Finally,
11 the Commission should consider the Company's actions to date. Two months after
12 Avista convinced us that its plan to manage its deferral balances to zero would work, the
13 Commission is confronted with the petition to amend the Settlement Stipulation and
14 increase rates by 37% for 27 months.

15
16 **VII. WHETHER THE DEFERRED ACCOUNTING SHOULD CONTINUE**

17 Q. WHY DOES STAFF RECOMMEND THAT THE DEFERRED ACCOUNTING FOR
18 POWER COSTS NOT BE CONTINUED?

19 A. There are several reasons. First, since Avista has requested prompt rate recovery of the
20 amounts in the power supply deferral, termination of that deferral is necessary to firmly
21 reiterate that Avista does not have an approved Power Cost Adjustment Mechanism
22 (PCA). Avista proposed a PCA mechanism in the last general rate case. The
23 Commission rejected that proposal, but stated several conditions under which a PCA

1 might be appropriate. In most respects, Avista's petition is now seeking to treat the
2 deferred accounting of power costs as if it were a PCA, without satisfying any of the
3 conditions required by the Commission. The Commission expressed no intent that while
4 it would reject the PCA proposal in the general rate case, it would provide essentially the
5 same sort of mechanism through power cost deferred accounting.

6 Second, the Settlement Stipulation, as approved by the Commission, authorized
7 continuation of the deferred accounting past June 30, 2001, but on the basis that the
8 Company would manage the deferred balance without an increase in rates. That has not
9 happened.

10 Third, termination of the deferral helps to address serious concerns about Avista's
11 booking of deferral power costs under FAS 71. Staff recommends a termination date of
12 June 30, 2001, which ensures that Avista's next reported financial statements for the
13 upcoming period ended September 30, 2001 will accurately reflect Avista's power supply
14 cost risk position for that period.

15 Fourth, discontinuation of the deferral defines the boundaries for the power
16 supply balance. In its July 23, 2000 petition in Docket No. UE-000972, Avista sought to
17 defer power costs until June 30, 2001, with a ten-year amortization. Avista represented
18 that the amount to be deferred would be in the range of \$20 million. The deferral balance
19 was \$109 million as of June 30, 2001 and it is growing. One argument for continuation
20 of the deferral might be that future power supply benefits might offset the deferral
21 balance. However, there is no assurance Avista will be able to successfully manage the
22 power supply deferral. In any event, the existence of any substantial potential power

1 supply benefits (other than the PGE monetization credit) is not apparent from the
2 Company's deferral workpapers.

3 The Commission will be in a position to evaluate all elements of the Company's
4 cost of service in the upcoming general rate case, which Staff recommends Avista file
5 promptly. By the end of 90 days, and should the Company seek continuation of
6 emergency rate relief, the Commission will be able to examine the need to continue the
7 emergency rate under traditional interim rate relief standards and in the proper context.
8 In that general rate case, the overall revenue requirement of the Company's electric
9 operations can be fully evaluated. The issue of whether any appropriate PCA should be
10 part of the Company's operations can be fully evaluated also. The propriety of the
11 Company's power supply model will also be evaluated, including how the Commission
12 accounts for adverse hydro and wholesale market conditions.

13 The Commission should also proceed promptly to the next phase of this docket, to
14 determine the extent to which the power costs deferred as of June 30, 2001 satisfy the
15 conditions previously imposed by the Commission, and conclude Docket No. UE-
16 010395.

17
18 Q. DOES THAT COMPLETE YOUR DIRECT TESTIMONY?

19 A. Yes.
20