

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET UE-150204

DOCKET UG-150205

JOINT TESTIMONY OF

KELLY O. NORWOOD (AVISTA)
CHRIS R. MCGUIRE (STAFF)
STEFANIE A. JOHNSON (PUBLIC COUNSEL)
BRADLEY G. MULLINS (ICNU)
EDWARD A. FINKLEA (NWIGU)

IN SUPPORT OF
THE MULTIPARTY SETTLEMENT STIPULATION

I. INTRODUCTION

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Q. Please state your names, titles, and the party you represent in this matter.

- A. Our names, titles, and representation are as follows:
- Kelly O. Norwood, Vice-President of State and Federal Regulation, Avista (or “Company”)
 - Chris R. McGuire, Regulatory Analyst, Washington Utilities and Transportation Commission Staff (Staff)
 - Stefanie A. Johnson, Regulatory Analyst, Public Counsel Unit of the Washington Office of Attorney General (Public Counsel)
 - Bradley G. Mullins, Independent Consultant, representing Industrial Customers of Northwest Utilities (ICNU)
 - Edward A. Finklea, Executive Director, Northwest Industrial Gas Users (NWIGU)

Together we are representatives of the “Parties” in this Joint Testimony.

Q. Are you sponsoring Joint Testimony in support of the Multiparty Settlement Stipulation filed with the Washington Utilities and Transportation Commission (Commission) on May 1, 2015?

A. Yes. This Joint Testimony of the Parties recommends approval of the Multiparty Settlement Stipulation (Settlement) by the Commission. The Settlement represents a compromise among differing points of view. Concessions were made by the Parties to reach a reasonable balancing of interests. Its approval is in the public interest. The Settlement has been marked as Exhibit ____.

Q. What is the scope of your testimony?

A. This Joint Testimony addresses several issues raised in Avista's general rate case filings in these dockets, as well as the scope of the Settlement and its principal aspects. It also includes a statement of the Parties' views about why the Settlement

1 satisfies their interests and the public interest, as well as any legal points that bear on the
2 proposed Settlement.

3 **Q. Would you briefly summarize the Settlement?**

4 A. Yes. The Settlement resolves all issues pertaining to cost of capital, current
5 power supply, rate spread and rate design. Later in our testimony, we discuss in more
6 detail the elements of the Settlement.

7 **Q. Who are the signatories to the Settlement?**

8 A. The Settlement, filed May 1, 2015, was signed by Avista, the Commission
9 Staff, ICNU, NWIGU, and Public Counsel. These represent all but one of the parties to
10 these proceedings; the Energy Project did not join the Settlement. Accordingly, this
11 represents a “multiparty settlement” under WAC 480-07-730.

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13 **II. QUALIFICATIONS OF WITNESSES**

14 **Q. Mr. Norwood, please provide information pertaining to your**
15 **educational background and professional experience.**

16 A. My name is Kelly O. Norwood. I am employed by Avista Utilities as the
17 Vice-President of State & Federal Regulation. I am a graduate of Eastern Washington
18 University with a Bachelor of Arts Degree in Business Administration, majoring in
19 Accounting. I joined the Company in June of 1981. Over the past 34 years, I have spent
20 approximately 23 years in the Rates Department with involvement in cost of service, rate
21 design, revenue requirements and other aspects of ratemaking. I spent approximately 11
22 years in the Energy Resources Department (power supply and natural gas supply) in a
23 variety of roles, with involvement in resource planning, system operations, resource

1 analysis, negotiation of power contracts, and risk management. I was appointed Vice-
2 President of State & Federal Regulation in March 2002.

3 **Q. Mr. McGuire, please provide information pertaining to your**
4 **educational background and professional experience.**

5 A. My name is Chris R. McGuire. I am employed by the Washington Utilities
6 and Transportation Commission (Commission) as a Regulatory Analyst in the
7 Conservation and Energy Planning Section of the Regulatory Services Division. My
8 educational background and professional experience is contained in my response testimony
9 filed July 27, 2015, in this docket on behalf of Staff in Exhibit No. ____ (CRM-1T).

10 **Q. Ms. Johnson, please provide information pertaining to your educational**
11 **background and professional experience.**

12 A. My name is Stefanie Johnson and my business address is 800 Fifth Avenue,
13 Suite 2000, Seattle, Washington, 98104. I am employed as a Regulatory Analyst with the
14 Public Counsel Unit of the Washington Attorney General's Office.

15 I received a B.A. in Political Studies and History from Whitworth University in
16 2002. In 2005, I received a Master's degree in Public Administration from the Daniel J.
17 Evans School of Public Policy and Governance at the University of Washington. Since
18 joining Public Counsel in December 2005, I have worked on a wide range of energy and
19 telecommunications issues, including: utility conservation programs, integrated resource
20 planning, resource acquisition, utility company mergers and acquisitions, legislative
21 matters, and numerous items associated with various regulatory procedures and ratemaking
22 policies.

1 Most recently, I filed testimony in PacifiCorp’s 2014 general rate case. I have also
2 recently filed written testimony and testified as a member of the panel supporting a number
3 of settlements, including the PacifiCorp PCAM settlement (Docket UE-140762), the PSE
4 PCA settlement (Docket UE-130617), the 2013 PSE Power Cost Only Rate Case.

5 **Q. Mr. Mullins, please provide information pertaining to your educational**
6 **background and professional experience.**

7 A. My name is Bradley G. Mullins. I am an independent consultant appearing
8 on behalf of the Industrial Customers of Northwest Utilities (“ICNU”), a non-profit trade
9 association whose members are large customers served by electric utilities throughout the
10 Pacific Northwest, including Avista.

11 I received Bachelor of Science degrees in Finance and in Accounting from the
12 University of Utah. I also received a Master of Science degree in Accounting from the
13 University of Utah. After receiving my Master of Science degree, I worked at Deloitte
14 Tax, LLP, where I was a Tax Senior providing tax consulting services to multi-national
15 corporations and investment fund clients. Subsequently, I worked at PacifiCorp Energy as
16 an analyst involved in regulatory matters primarily involving power supply costs. I began
17 performing independent consulting services in September 2013. I currently provide
18 consulting services for utility customers, independent power producers, and qualifying
19 facilities on matters ranging from power costs and revenue requirement to power purchase
20 agreement negotiations.

21 **Q. Mr. Finklea, please provide information pertaining to your educational**
22 **background and professional experience.**

1 issues. Each of the Parties ultimately agreed to concessions on matters which would not
 2 have been agreed to if each of the Parties were to proceed to evidentiary hearings.

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4

IV. COST OF CAPITAL

5 **Q. Please explain the Parties' agreement in regards to the rate of return.**

6 A. The Parties agreed to an overall rate of return of 7.29 percent, which
 7 includes a 9.5 percent return on equity, with a 48.5 percent common equity ratio. The
 8 individual cost of capital components of the agreed upon rate of return are set forth in
 9 Table No. 1 below:

10 **Table No. 1 – Agreed Upon Cost of Capital**

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	Percent of Total Capital	Cost	Component
Total Debt	51.5%	5.20%	2.68%
Common Equity	48.5%	9.50%	4.61%
Total Debt	100.0%		7.29%

15

V. POWER SUPPLY

16 **Q. Please explain the provisions in the Settlement related to power supply**
 17 **costs?**

18 A. The Parties agreed with the new base power supply costs filed by the
 19 Company, with the following specified adjustments:

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1. Correction for AURORA_{XMP} Coding Error: The AURORA_{XMP} power supply model contains the functionality to calculate the mark-to-market value of the financial transactions entered into in the pro forma year by calculating the “gain” or “loss” of each transaction by comparing the

1 fixed price of the transactions compared to the modeled energy price in
2 AURORA_{XMP}. An enhancement of the AURORA_{XMP} model by EPIS in
3 late 2014 contained an incorrect calculation of the mark-to-market function,
4 which the Company discovered in April 2015.¹ The logic in the model
5 essentially reversed the signs so that a gain became a loss and a loss was
6 reflected as a gain. The effect of this correction is a reduction in power
7 supply expense of approximately \$6.9 million (Washington basis).

8 2. Chelan PUD Contract Expense: During the development of the
9 power supply costs for the rate case, the Company had been working with
10 Chelan PUD regarding a planned auction for Chelan to sell a 5 percent
11 share of Rocky Reach/Rock Island output for the 2016 through 2020 period.
12 The Company included an estimate of the expected purchase price in the
13 pro forma; however, on March 17, 2015, the Company was able to purchase
14 the output at a lower price than what was included in the rate case. The
15 actual purchase price for 2016 is \$5.5 million less (on a system basis) than
16 the estimate. The effect of this update is a reduction in power supply
17 expense of \$3.6 million (Washington basis).

18 3. Hydro Station Service: The modeled station service included for the
19 Noxon, Little Falls, and Long Lake hydro facilities will be removed from
20 the Company's power supply adjustment. The effect of this adjustment is

¹ This enhancement to the Aurora Model was completed after the power supply update filed with the Commission in November 2014 related to Avista's prior General Rate Case Docket No. UE-140188 and therefore had no impact on the results submitted in that case.

1 an estimated reduction in power supply expense of \$28,000 (Washington
2 basis).

3 4. Colstrip and CS2 Thermal O&M: O&M costs related to Coyote
4 Springs II and Colstrip will be removed from the base power supply costs.
5 The effect of this adjustment is an estimated reduction in power supply
6 expense of \$3.6 million (Washington basis). The revenue requirement
7 related to these costs will be addressed during the remainder of the case.

8 5. Other Adjustments to Power Supply Costs – The Parties agree to an
9 additional adjustment to the new base power supply costs filed by the
10 Company, following discussions by the Parties. The Parties agree that it
11 would be fair and reasonable to further reduce power supply expense by
12 \$1.5 million. At the time that power supply costs are updated pursuant to
13 Section 5. a) of the Settlement, the resulting power supply costs will be
14 reduced by \$1.5 million on a Washington basis.

15 In addition, as memorialized in Section 5. a) of the Settlement, the Parties agreed
16 that Avista shall file with the Commission an updated power supply adjustment two
17 months before new electric retail rates from this electric docket go into effect. As in past
18 proceedings, the purpose of this power supply update would be to: 1) update the three-
19 month average of natural gas and electricity market prices; 2) include new short-term
20 contracts for gas and electric; and 3) update or correct power and transmission service
21 contracts for the 2016 rate year. The Parties are free to seek discovery on, and examine the
22 prudence of, the updated power supply items identified above.

1 A. With regard to electric rate spread, the Parties agreed to apply an equal
2 percentage of revenue increase for purposes of spreading the revised electric revenue
3 requirement. Regarding natural gas rate spread, the Parties agreed to apply an equal
4 percentage of margin increase for purposes of spreading the increase in the retail natural
5 gas non-gas revenue requirement. The Parties, however, did not agree on a specific electric
6 or natural gas Cost of Service methodology.

7 **Q. What rate design was agreed to in the Settlement for electric service?**

8 A. The components of rate design are as follows:

- 9 1) The Schedule 1 basic charge will remain at \$8.50 per month, with the
10 revenue spread to the energy block rates on a uniform percentage basis.
- 11 2) For the rate design of Schedule 25, the revenue change applicable to the
12 schedule will be spread on a uniform percentage basis to the three
13 energy block rates; however, the increase to the third energy block will
14 be adjusted, if necessary, so that the largest customer served on
15 Schedule 25 receives the same percentage increase as the overall
16 revenue increase in this case. The demand charge for the first 3,000
17 kVa will remain \$21,000 per month, and the variable demand charge
18 will remain at \$6.00 per kVa over 3,000 kVa per month.
- 19 3) The rate design for all other schedules will be as follows:
- 20 a) Schedules 11/12 will have an increase in the basic charge from \$18.00
21 to \$20.00 per month, and a uniform percentage rate change to blocks.
22 In addition, the demand charge will increase from \$6.00 to \$6.50 per
23 kilowatt for all demand in excess of 20 kW per month.

- 1 b) Schedules 21/22 will have no change to the current \$500 per month
2 fixed demand charge. The revenue increase for the schedule will be
3 spread on a uniform percentage increase to all blocks, and the demand
4 charge will increase from \$6.00 to \$6.50 per kilowatt for all demand in
5 excess of 50 kW per month.
- 6 c) Schedules 31/32 will have an increase in the basic charge from \$18.00
7 to \$20.00 per month, and there will be a uniform percentage increase to
8 all blocks for the remaining revenue increase applicable to the schedule.
- 9 d) Street Lighting Schedules 41-48 would see a uniform percentage
10 increase, and the street light calculation methodology described in
11 Exhibit No.__(PDE-1T), on pages 14 to 16, will be adopted.

12 **Q. What rate design elements were agreed to in the Settlement for natural**
13 **gas service, as shown on page 7 of Appendix 2 to the Settlement?**

- 14 A. The components of the natural gas rate design are as follows:
- 15 1. The Schedule 101 basic charge will remain at \$9.00 per month, with
16 the revenue spread to the energy block rates on a uniform percentage
17 basis.
- 18 2. For Schedule 146, the monthly basic charge will increase from \$500
19 to \$525 per month, and the remaining revenue increase will be spread
20 on a uniform percentage basis to all blocks.
- 21 3. The rate design for other schedules will be as follows:

- 1 a) Schedule 111 will have an increase in the monthly minimum
2 charge based on Schedule 101 rates (breakeven at 200 therms),
3 and a uniform percentage increase to all blocks.
- 4 b) Schedule 121 will have an increase in the monthly minimum
5 charge based on Schedule 101 rates (breakeven at 500 therms),
6 and a uniform percentage increase to all blocks.
- 7 c) Schedule 131 will have a uniform percentage increase to all
8 blocks.

9

10 **VII. PUBLIC INTEREST**

11 **Q. Before providing each Party's separate statement what have the**
12 **Parties agreed to regarding the effect of the Settlement on any future rate**
13 **proceedings?**

14 A. The Settlement represents a negotiated compromise among the Parties.
15 Thus, the Parties have agreed that no particular party shall be deemed to have approved
16 the facts, principles, methods, or theories employed by any other Party in arriving at these
17 stipulated provisions, and that the terms incorporated should not be viewed as precedent
18 setting in subsequent proceedings except as expressly provided. In addition, the Parties
19 have the right to withdraw from the Settlement if the Commission adds any additional
20 material conditions or rejects any material part of the Settlement.

21 **Q. Do the separate statements of each Party represent their views of why**
22 **the Settlement is in the public interest?**

1 A. Yes. The following statements are provided from the perspective of each
2 of the settling Parties, and as such, represent their views only. As such, no other party
3 shall be deemed to have agreed to the statements of a particular party.

4 **Statement of Avista**

5 **Q. Please explain why Avista believes the Settlement is in the public**
6 **interest.**

7 A. The Settlement strikes a reasonable balance between the interests of Avista
8 and its customers on cost of capital, power cost, and rate spread and rate design issues
9 included in the Settlement. The Settlement was a compromise among differing interests
10 and represents give-and-take.

11 The Settlement includes adjustments to the originally-filed net power supply costs,
12 including a recent change in the Company's power supply model, updated lower contract
13 costs associated with a recently signed purchase of power from Chelan PUD, and agreed-
14 upon additional reductions to power supply costs. The Parties also agreed that power
15 supply costs would be updated with the most current information two months prior to new
16 retail rates going into effect from this case. The updated power supply costs (higher or
17 lower) would also be used to reset the base for the Energy Recovery Mechanism (ERM)
18 calculations for 2016.

19 The Settlement also provides consensus around all issues regarding electric rate
20 spread and rate design, as well as an agreed-upon cost of capital. While the ultimate
21 electric and natural gas revenue requirements are still to be determined, the settlement
22 agreement moves us one step closer to arriving at new electric and natural gas rates in
23 Washington that are fair and reasonable for our customers, the Company and our

1 shareholders. In conclusion, the Settlement resolves major issues included in the
2 Company's electric and natural gas general rate case filings, pertaining to cost of capital,
3 power supply, and rate spread and rate design issues. For these reasons, the Settlement is
4 in the public interest and should be approved by the Commission.

5 **Statement of Commission Staff**

6 **Q. Please state your name and business address.**

7 A. My name is Chris R. McGuire. My business address is The Richard
8 Hemstad Building, 1300 S. Evergreen Park Drive S.W., Olympia, WA 98504.

9 **I. PURPOSE AND SCOPE OF TESTIMONY**

10 **Q. Please summarize the purpose of your testimony.**

11 A. I explain how Staff evaluated the specific elements of the Settlement, which
12 includes rate of return, power supply costs, and rate design, and why Staff believes that the
13 proposed Settlement is in the public interest.

14 **Q. Please summarize Staff's understanding of the components of this**
15 **Settlement.**

16 A. In broad terms, the proposed Settlement represents a reasonable balance
17 among elements of cost of capital, power costs, and rate design. Herein, I describe Staff's
18 support for the proposed a) 7.29 percent rate of return, b) update to net power costs, and c)
19 very modest (to no) increases to basic charges and certain demand charges, with the
20 remainder of revenue spread on a uniform percentage basis.

21 The proposed 7.29 percent rate of return includes a 48.5 percent equity layer and a
22 9.5 percent return on equity. The Settlement stipulates that power costs will be updated in
23 early November 2015; Avista's Energy Recovery Mechanism primarily will continue in its

1 present form but with major maintenance expense removed from net power supply costs;
2 and the ERM Retail Revenue “Credit” will be re-labeled as Retail Revenue Adjustment
3 and will operate as approved in Docket UE-140188. The residential basic charge remains
4 unchanged for both electric and gas service.

5 **II. RATE OF RETURN**

6 **Q. Why does Staff support the settled rate of return of 7.29 percent?**

7 A. There are a few factors that show this is a reasonable rate of return (ROR).

8 Our main reasons include:

- 9 1. The Commission decision in Docket UE-140762, Order 08.
- 10 2. The testimony of Avista’s witness Mr. Adrien McKenzie on the Company’s
11 capital structure.
- 12 3. The ROR in the settlement of Avista’s 2014 general rate case.

13 **Q. Please describe the Commission’s decision in its recent Pacific Power and 14 Light Company order.**

15 A. The Commission authorized an ROR of 7.30 percent for Pacific Power and
16 Light Company in March of 2015.² The ROR in this Settlement is nearly identical at 7.29
17 percent. Granted this is a wholly different utility with different circumstances, but the
18 March Pacific Power and Light Company decision is the most recent opinion of this
19 Commission on the current cost of capital.

20 **Q. Please explain how Mr. McKenzie’s testimony on capital structure is 21 relevant to Staff’s support of the Settlement.**

² *Wash. Utils. and Transp. Comm’n v. Pacific Power & Light Co.*, Docket UE-140762, Order 08, (March 25, 2015) (“PacifiCorp Order”).

1 A. At the time of this Settlement, Avista had presented the only ROR testimony
2 for the record in the present case. One of Mr. McKenzie’s exhibits is particularly relevant
3 to Staff’s support of the Settlement. In Exhibit No. ____ (AMM-5), Mr. McKenzie
4 compares Avista’s operations to a proxy group of 20 gas and electric utilities across the
5 nation. He presents the capital structures of these 20 utilities as one of his metrics in the
6 exhibit. Here we see that Avista’s percentage of debt in the capital structure is near the
7 upper end of the sample given that only five utilities have greater than the 51.5 percent
8 debt agreed upon for Avista in this Settlement.³ This indicates that the equity percentage
9 (equity and preferred stock make up the balance to equal 100 percent) in the Settlement is
10 not overly generous. In fact, the equity level proposed for Avista in the Settlement, 48.5
11 percent, is slightly less than the average equity of the proxy group, which is 48.7 percent.

12 **Q. How does Staff use Mr. McKenzie’s testimony in evaluating the rate of**
13 **return in the Settlement?**

14 A. Staff uses Exhibit No. ____ (AMM-5) to show that the capital ratio of 51.5
15 percent debt and 48.5 percent equity is within a reasonable range.

16 **Q. What rate of return was agreed to in the settlement for Avista’s last**
17 **general rate case, in Dockets UE-140188/UG-140189?**

18 A. The ROR in the settlement for Dockets UE-140188/UG-140189 was stated as
19 7.32 percent for accounting purposes such as AFUDC.⁴ Neither the capital structure nor
20 the return on equity was specifically identified. The current Settlement specifies an ROR

³ McKenzie, Exh. No. ____ (AMM-5), first three columns labeled “At Fiscal Year-End 2013.”

⁴ The Commission adopted the stipulated ROR in *Washington Utilities and Transportation Commission v. Avista Corp. d/b/a Avista Utilities.*, Dockets UE-140188 and UG-140189 (*consolidated*), Order 05, Final Order Rejecting Tariff Filing, Accepting With Conditions Full Settlement, Authorizing Tariff Filing, and Requiring Compliance Filing (Nov. 24, 2014).

1 of 7.29 percent and identifies the capital structure. This ROR is slightly lower than that of
2 one year ago.

3 **Q. What is your conclusion from these observations?**

4 A. Staff concludes the ROR agreed to by all parties to the Settlement is fair and
5 reasonable.

6 **III. POWER SUPPLY**

7 **Q. Is the power supply component of the Settlement reasonable?**

8 A. Yes. The power supply component of the Settlement achieves a fair and
9 reasonable result by allowing the Company to update power supply costs before rates
10 become effective. Staff is particularly satisfied with the modeling corrections and
11 assumption updates, and the continuation of the Energy Recovery Mechanism (ERM) in its
12 present form. Additionally, the discussion of Colstrip and Coyote Springs 2 Operations
13 and Maintenance expense in the remainder of the case allows all interested parties to weigh
14 in on a contentious issue without hampering fruitful agreements elsewhere. Overall, the
15 power supply component of the Settlement creates a clear and rational picture of expected
16 power costs going forward and provides the Company with a key opportunity to adjust for
17 changes that will occur in 2015.

18 **Q. Why is it important to Staff that the ERM continue without change?**

19 A. The ERM was just recently modified in Avista's last general rate case in
20 Docket UE-140188 to take into account the effects of decoupling. Allowing the ERM to
21 continue consistent with the Company's recently approved decoupling mechanism
22 prevents unnecessary problems with the overall decoupling structure.

1 necessary. This provision does not impact the overall class contribution to the revenue
2 requirement. The fixed and variable demand charges remain unchanged.

3 Other rate schedules will see modest increases to basic charges and certain demand
4 charges, with the remainder of revenue spread to the energy blocks on a uniform
5 percentage basis.

6 Street lighting schedules will see a uniform percentage increase, and include
7 provisions to accommodate LED and custom lamp installations. Staff appreciates the
8 explicit inclusion of LEDs to Schedule 47 and the flexibility added for custom lamp
9 installations to Schedules 42 and 46. Although the approaches proposed by Avista and
10 adopted in this Settlement to address LED and custom lamps are reasonable, Staff
11 anticipates that it will be useful in the future to revisit the LED and custom lamp rate
12 calculation methodologies to assess experience with and customer demand for these new
13 technologies.

14 The electric rate spread and rate design components of the Settlement maintain the
15 relationships between customer classes and energy blocks with minor changes to certain
16 basic and demand charges, which Staff supports as a reasonable outcome of this case.

17 **Q. Please describe the natural gas rate spread and rate design components**
18 **of the Settlement.**

19 A. The natural gas rate spread component of the Settlement applies an equal
20 percentage of margin increase for the natural gas non-gas revenue requirement. This
21 maintains Avista's existing class allocations, which is one of many reasonable rate spread
22 approaches. The Settlement does not represent an agreement on a specific cost of service

1 **Statement of Public Counsel**

2 **Q. Please explain why Public Counsel believes the Settlement is in the**
3 **public interest.**

4 A. The Settlement is a reasonable resolution of cost of capital, certain power
5 cost issues, and rate spread and rate design in Avista's current general rate case. Public
6 Counsel believes the settlement provides a fair and reasonable outcome for these issues
7 that is in the public interest. As described above, the settlement sets Avista's cost of capital
8 in a manner consistent with current market conditions, addresses rate spread and rate
9 design in an appropriate manner beneficial to customers, and adjusts certain power costs to
10 reflect necessary changes and updates.

11 **Q. Please explain why Public Counsel supports the agreement on cost of**
12 **capital in the Settlement.**

13 A. Although Public Counsel did not have the benefit of a cost of capital expert
14 in this case, we believe the Settlement is reasonable in light of the following factors. In
15 Avista's 2014 general rate case, Public Counsel agreed to a "black box" settlement that did
16 not specify the components of the capital structure ratios and cost of capital, with the
17 exception that ROR of 7.32 percent was specified for AFUDC and other purposes.⁷ This
18 settlement was reached after Public Counsel presented comprehensive testimony from
19 Stephen G. Hill (filed on July 14, 2014, roughly nine months before the settlement
20 conference in this case) recommending an ROE of 8.75 percent, with a capital structure of
21 49 percent common equity and 51 percent long-term debt, for an after-tax overall return of

⁷ Prior to the 2014 GRC, Avista's authorized ROR was 7.64 percent.

1 7.05 percent.⁸ The settlement in this docket moves closer to Public Counsel’s 2014
2 recommendation.

3 In addition to referring to Mr. Hill’s testimony from the prior Avista case, Public
4 Counsel considered how the Commission has treated issues when they are presented close
5 in time. The Commission in PacifiCorp’s most recent general rate case chose not to rehear
6 recently resolved issues around cost of capital, after it determined there was no evidence
7 that there was any significant change in capital markets since PacifiCorp’s previous case.⁹
8 Avista has similarly filed this rate case shortly after its previous recent general rate case,
9 and Public Counsel looked to testimony from the previous case for guidance in our
10 analysis of the proposed settlement.

11 Moreover, this settlement reflects the trend of declining ROE and ROR for
12 regulated utilities, by decreasing the Company’s previously approved “effective” ROR
13 from 7.32 percent to an actual ROR of 7.29 percent. For example, the Commission
14 determined that an appropriate ROE for PacifiCorp was 9.5 in that utility’s 2013 general
15 rate case, and the resulting ROR in that case was 7.36%. In that case, there was sufficient
16 evidence to set PacifiCorp’s ROE lower, but the Commission chose to set PacifiCorp’s
17 ROE towards the higher end of the range of reasonableness, stating that the principle of
18 gradualism should apply.¹⁰ Moreover, in Avista’s 2012 general rate case, the Commission
19 noted that “equity returns continue to trend downward” when approving the settlement in
20 that case providing a 9.8% ROE.¹¹ The Commission also noted that had the case been
21 litigated, it “may very well have decided that an ROE of less than 9.8 would be

⁸ Dockets UE-140118 and UG-140189, Exhibit No. SGH-1T, and SGH-15.

⁹ Docket UE-140762, *et al.*

¹⁰ Docket UE-130043, Order 05 at ¶63 (December 4, 2013).

¹¹ Docket UE-120436 and UG-120437, Order 09 at ¶74 (December 26, 2012).

1 warranted.”¹² Thus, it is reasonable in this docket to make a downward adjustment to
2 Avista’s ROR and ROE.

3 **Q. How do the terms in the Settlement regarding electric and natural gas**
4 **rate spread satisfy the interests of Public Counsel?**

5 A. The agreement does not adopt a specific cost of service methodology and
6 applies any rate change on an equal percentage basis across customer classes. Given the
7 frequency with which Avista has filed general rate cases, and how recently the last case
8 concluded, this is a reasonable outcome in this case. The agreement represents a fair
9 assignment of revenue responsibility for all customer classes.

10 **Q. How does the Settlement address the proposed increases to the electric**
11 **and natural gas monthly basic charges?**

12 A. Avista proposed substantial increases to both the electric and natural gas
13 monthly basic charges. For electric, Avista proposed to increase the basic charge from
14 \$8.50 to \$14.00, and for natural gas, Avista proposed to increase the basic charge from
15 \$9.00 to \$12.00. The Settlement proposes no increases to the basic charges. Public
16 Counsel’s analysis in Avista’s previous case demonstrated that an \$8.00 electric fixed
17 customer charge was appropriate and that a \$9.00 natural gas fixed charge was appropriate.
18 Our review of the current case did not reveal any new information that would revise Public
19 Counsel’s recommendation. Furthermore, in its order in the 2014 PacifiCorp General Rate
20 Case, the Commission rejected a similar proposal for a sizeable increase to the customer
21 charge. It is also noteworthy that Avista has a full decoupling mechanism, which was
22 approved in the previous GRC, and serves as a means to address potential under- or over-

¹² *Id.*

1 recovery of fixed costs. For these reasons, maintaining the current customer charges for
2 gas and electric is in the public interest.

3 **Q. Please explain why Public Counsel supports the power cost adjustments**
4 **in the Settlement.**

5 A. Public Counsel supports the power cost adjustments included in the
6 Settlement because some of the proposed adjustments might more accurately be described
7 as updates to Avista's filing than issues that required compromise. Additionally, the
8 Settlement eliminates proposed changes to the ERM.

9 Regarding updates to power supply, Public Counsel believes that if the settlement
10 had not occurred, these items would have been updated by intervenors and the Company in
11 later filings in the docket. Notably, there was a significant error in the Aurora modeling
12 that, when corrected, reduced the Company's request by \$6.9 million. Additionally, after
13 Avista filed its case, Avista finalized a contract with Chelan PUD for \$3.6 million less than
14 the Company estimated. Because of the size of these adjustments, it was reasonable for
15 parties to address these issues earlier in the case rather than later.

16 Public Counsel also supports the removal of the proposed changes to the ERM. The
17 Settlement retains both the current trigger at \$30 million and the current Retail Revenue
18 Adjustment as well as its calculation methodology. It also removes the Company's request
19 to include Colstrip and Coyote Springs 2 Thermal O&M costs in the ERM. We do not
20 believe Avista's originally proposed revisions to the ERM are necessary, and retaining the
21 ERM in its current format is in the public interest at this time.

22 **Q. Does Public Counsel have an overall recommendation with respect to the**
23 **Settlement?**

1 A. Yes. For reasons discussed above, Public Counsel believes the Settlement is in
2 the public interest and fairly resolves the issues on which Parties agree. Public Counsel
3 recommends that the Commission approve the Settlement.

4 **Statement of ICNU**

5 **Q. Why does ICNU support the Settlement?**

6 A. ICNU supports the Settlement because it represents a reasonable outcome
7 for customers. Any settlement is a compromise of positions, and ICNU finds sufficient
8 value for industrial customers in the Settlement through the resolution of limited issues in
9 an efficient manner. ICNU is also able to join the Settlement because it does not include
10 still contested issues such as the Company's requested attrition adjustment, capital
11 expenditures, and executive compensation levels.

12 **Q. Will approval of the Settlement help the Commission to set rates that**
13 **are fair, just, reasonable and sufficient?**

14 A. Yes. While highly significant issues are yet to be resolved in these dockets
15 before fair, just, reasonable and sufficient rates can be established, the Settlement
16 represents a reasonable compromise and resolution on all cost of capital, current power
17 supply, rate spread and rate design issues. The resolution of these issues not only
18 represents a good result for ratepayers, but also allows the Commission to devote its full
19 attention to still contested issues.

20 For instance, the validity of attrition adjustment requests, the surging capital
21 expenses of Avista, and appropriate levels of executive compensation are all issues which
22 appear on a near annual basis, yet have not been decisively resolved due to prior, all-

1 encompassing settlements. With the limited compromise of the Settlement, the stage is
2 now set for the Commission to potentially and fully address these long contested matters.

3 **Q. Turning to the merits of the individual components of the Settlement,**
4 **why does ICNU support settlement of cost of capital issues?**

5 A. Given the present, historically low interest rate environment, and even
6 allowing for potential interest rate movement from the Federal Reserve, ICNU believes the
7 proposed reductions to the Company's authorized common equity and rate of return are
8 appropriate. Although ICNU would likely have provided testimony recommending that
9 even further reductions are merited in the current financial and market climate, the cost of
10 capital settlement is a reasonable compromise that is fair to customers and sufficient for
11 Avista.

12 **Q. Please explain why ICNU supports settlement on all current power**
13 **supply issues.**

14 A. Parties negotiated intensely on appropriate power supply costs, and the
15 Commission can be assured that significant endeavor accompanied the proposed resolution
16 on these issues. For instance, ICNU proposed several adjustments which do not expressly
17 appear in the Settlement; however, the "Other Adjustments to Power Supply Costs"
18 component of the Settlement, which results in an additional \$1.5 million decrease to power
19 supply expense, represents a fair and reasonable compromise between parties on these very
20 issues.

21 Likewise, the agreement to remove Colstrip and CS2 Thermal O&M expense from
22 base power supply costs is another fair compromise which allows for a sizeable power
23 supply expense reduction while reserving contested treatment of such costs to the

1 remainder of the case. All other specific power supply cost reductions also represent fair
2 adjustments to the Company's initial filing, and should be approved.

3 **Q. Does ICNU believe that the Settlement will produce a fair and just**
4 **outcome on rate spread and rate design issues?**

5 A. Yes. The agreement to apply equal percentage increases for purposes of
6 rate spread is a manifest compromise that is fair to all customers. Parties were active in
7 ensuring that the proposed rate design also effectuated the reasonable compromise
8 intended via the equal rate spread agreement. For example, ICNU supports the rate design
9 settlement because it contains an explicit provision guaranteeing that the largest customer
10 served on Schedule 25 will receive the same percentage increase as the overall revenue
11 increase in the case. Moreover, given the considerable demand charge increases approved
12 in last year's general rate case, ICNU believes it is just and reasonable to maintain the
13 current demand charges for Schedule 25 customers, which still allows for sufficient
14 revenue for the Company.

15 **Q. Does ICNU recommend that the Commission adopt the Settlement?**

16 A. Yes. For the reasons mentioned above, this Settlement is in the public
17 interest, and ICNU recommends that the Commission adopt it.

18 **Statement of NWIGU**

19 **Q. Please explain why NWIGU believes the Settlement is in the public**
20 **interest.**

21 A. NWIGU believes the Settlement is in the public interest and recommends
22 the Commission approve the Settlement because the best interests of Avista's natural gas
23 customers are served by the underlying fair compromise on cost of capital, rate spread, and

1 rate design issues. While the signing parties may each hold different positions on the
2 individual components of the Settlement, NWIGU’s support stems in part from the fact
3 that the agreement reached on capital costs is consistent with the cost of capital approved
4 for other dual fuel utilities in the region. By stipulating to the cost of capital, the
5 Commission and the parties can focus their review of Avista’s filing on other areas where
6 there may be more disagreement.

7 NWIGU also finds the Settlement to be in the public interest as the spread of the
8 gas rate increase is done in a manner that is consistent with the results of the preliminary
9 cost of service analysis performed by NWIGU in this proceeding. It is important from
10 NWIGU’s perspective that industrial sales and transportation rate schedules not move
11 further away from their relative cost of service, and the provisions of the Settlement ensure
12 that is the case.

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VIII. CONCLUSION

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Q. In conclusion, why is this Settlement “in the public interest?”

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A. This Settlement should be approved for the following reasons:

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- It strikes a reasonable balance between the interests of the Company and its customers. As such, it represents a reasonable compromise among differing interests and points of view.
- Ample opportunity has been afforded all Parties to participate meaningfully in the settlement process.
- In the final analysis, any settlement reflects a compromise, in the give-and-take of negotiations; the Commission, however, has before it a Settlement that is supported by sound analysis and sufficient evidence. Its approval is “in the public interest” and satisfies the requirement that rates be fair, just, reasonable and sufficient.

1 **Q. Are there legal standards that must be satisfied with respect to any**
2 **settlement?**

3 A. Yes. The Commission’s charge is to regulate in the public interest. The
4 terms of the Settlement must result in rates that are fair, just, reasonable and sufficient.
5 (RCW 80.28.010) As such, the Commission must assure fair and reasonable prices and
6 services to customers, as well as “provide the utility with rates sufficient to cover its
7 prudently incurred costs and an opportunity to recover a return on its investment.”
8 (WUTC v Avista Corporation, Docket Nos. UE-050482/UG-050483, Order No. 05 at p. 10
9 (December 21, 2005)). In the final analysis, it is the “end result” that matters, not the
10 methods by which rates are determined. (Id., at p.11). The Settlement represents the
11 Parties’ best efforts at arriving at an end result that satisfies these requirements.

12 **Q. Does that conclude your pre-filed direct testimony?**

13 A. Yes it does.