

Exhibit ____ (MPP-1T)
Docket No. UE-010395
Witness: Michael P. Parvinen

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

MICHAEL P. PARVINEN

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

RE: AVISTA PETITION FOR 37% EMERGENCY SURCHARGE

August 24, 2001

1 Q. WOULD YOU STATE YOUR NAME AND BUSINESS ADDRESS?

2 A. My name is Michael P. Parvinen. My business address is 1300 S. Evergreen Park Dr.
3 S.W., P.O. Box 47250, Olympia, Washington 98504-7250. My e-mail address is
4 mparvine@wutc.wa.gov.

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

7 A. I am employed by the Washington Utilities and Transportation Commission as a Policy
8 Research Specialist.

9
10 Q. HOW LONG HAVE YOU BEEN WITH THIS AGENCY?

11 A. I have been with the Commission since January 1987.

12
13 Q. WHAT ARE YOUR EDUCATIONAL AND PROFESSIONAL QUALIFICATIONS?

14 A. I graduated from Montana College of Mineral Science and Technology in May of 1986,
15 and received a Bachelor of Science degree in business administration with a major in
16 accounting. I have appeared before the Commission in: Docket No. UE-991606/UG-
17 991607 – Avista Corporation; Docket No. UG-931405 - Washington Natural Gas
18 Company; Docket No. UG-920840 - Washington Natural Gas Company; Docket No.
19 UG-911246 - Cascade Natural Gas Corporation; Docket No. UE-900093 - The
20 Washington Water Power Company; Docket No. U-89-2688 - Puget Sound Power &
21 Light Company; Docket No. D-2576 - Bremerton-Kitsap Airporter, Inc.; and Docket
22 No. U-88-2294-T - Richardson Water Companies. I have also analyzed or assisted in the
23 analyses of numerous transportation and utility rate filings. I have attended the Seventh

1 Annual Western Utility Rate Seminar in 1987, and the 1988 Annual Regulatory Studies
2 Program, sponsored by the National Association of Regulatory Utility Commissioners
3 (NARUC).

4
5 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

6 A. In section I of my testimony, I present Staff's recommendations for the accounting entries
7 associated with any increased revenues that are granted in the context of Avista's request
8 for emergency rate relief.

9 In section II of my testimony, I address the rate design for any tariff under which
10 any such authorized revenues are collected.

11
12 Q. PLEASE SUMMARIZE STAFF'S RECOMMENDATIONS ON THESE ISSUES.

13 A. Staff recommends that any revenues collected under emergency rate relief be booked in
14 Account 254, Other Regulatory Liabilities. Any such rate that is designed to collect such
15 revenues should be applied to each customer class as a uniform rate per kwh.

16
17 Q. DO YOU SPONSOR ANY EXHIBITS?

18 A. Yes, I sponsor one exhibit, Ex. _____ (MPP-2).

1 **SECTION I – ACCOUNTING REQUIREMENTS**

2
3 Q. WOULD YOU SUMMARIZE YOUR UNDERSTANDING OF THE ELEMENTS OF
4 STAFF’S OVERALL RECOMMENDATION THAT EFFECT THE ACCOUNTING
5 AND RATE DESIGN ISSUES YOU ADDRESS?

6 A. Yes. Staff’s recommendation is for the Commission to allow emergency rate relief on a
7 short-term basis, subject to refund, and to discontinue the deferral mechanism. The
8 amount of emergency revenues received would be credited to the balance of power costs
9 deferred, but only after those costs have been determined to be prudent and otherwise
10 appropriate for recovery. Those issues will be resolved in the next phase of this docket.

11
12 Q. HOW SHOULD AVISTA ACCOUNT FOR THE REVENUES IT RECEIVES FROM
13 ANY EMERGENCY RATE RELIEF THAT MAY BE GRANTED?

14 A. The Commission should require Avista to record the emergency rate relief revenue to
15 Account 254, Other Regulatory Liabilities. Interest should also be accrued on the
16 balance. The Commission should require Avista to create a specific sub account within
17 Account 254 to record emergency rate relief revenues as a separately identifiable revenue
18 item. The interest rate applied to the accrued balance should be at the rate of return the
19 Commission authorized in the Company’s last general rate case, 9.03%. This is the same
20 rate Avista is applying to deferred power costs.

21
22 Q. HOW HAS THE COMPANY PROPOSED TO ACCOUNT FOR ANY EMERGENCY
23 RATE RELIEF REVENUE COLLECTED?

1 A. The Company proposes to account for the revenue as general revenue in Account 400.
2 (Response to Staff Data Request # 131(b)).

3

4 Q. WHAT IS THE REASON FOR USING ACCOUNT 254 INSTEAD OF A GENERAL
5 REVENUE ACCOUNT?

6 A. Staff's recommendation is that the Commission should allow Avista to credit any
7 emergency rate relief revenue to deferred power costs when and if those costs are
8 determined by the Commission to be prudent and otherwise recoverable. Staff agrees
9 with Avista that any emergency revenue that is collected in excess of costs determined by
10 the Commission to be recoverable should be refunded to customers. It is therefore
11 appropriate to account for the revenues consistent with this treatment. Recording the
12 emergency revenues to a revenue account and amortizing the deferred power costs, as the
13 Company is proposing, gives the incorrect impression the deferred account balance is
14 appropriate even though the Commission has not made that determination at this time.
15 By contrast, recording the emergency revenue in a deferred liability account provides an
16 offset to the deferred power costs on the balance sheet, yet correctly indicates that no
17 determination of acceptance of such costs has been made.

18

19 Q. HOW WOULD USING ACCOUNT 254 INSTEAD OF A GENERAL REVENUE
20 ACCOUNT AS PROPOSED BY THE COMPANY AFFECT THE COMPANY'S
21 FINANCIAL RECORDS?

22 A. There would be no difference on Net Income. Also, if the deferred debits and deferred
23 credits proposed by Staff were netted together, the balance would be the same as if the

1 deferred power cost account was being amortized, as proposed by the Company. The
2 main difference is that using the method proposed by Staff would make it more clear on
3 the Company's financial records that absolutely no determination on the appropriateness
4 of, or recovery of, the deferred power costs is being made, explicitly or impliedly, in this
5 phase of the docket.

6
7 Q. WHAT IS THE REASON FOR USING ACCOUNT 254 INSTEAD OF ACCOUNT
8 253, OTHER DEFERRED CREDITS?

9 A. Staff's recommendation is that ratepayers are assured that any additional revenues
10 collected will be either refunded or credited against recoverable deferred power costs.
11 Under Staff's recommendation, Account 254, Other Regulatory Liabilities, is the
12 appropriate account to use. It would be appropriate to use Account 253, Other Deferred
13 Credits, for the offsetting revenues if the Commission defers ordering a specific action
14 with regard the deferred revenue balance. In other words, if the Commission wished to
15 leave its options open on how the deferred revenues would be used or cleared from the
16 deferral account, then account 253, Other Deferred Credits, would be the appropriate
17 account to use.

18
19 Q. WHAT IS THE BASIS FOR THE INTEREST RATE YOU RECOMMEND?

20 A. Avista is currently using its authorized rate of return to accrue interest on the deferred
21 power cost account. It only makes sense that any off-setting account or refund deferral
22 accrue interest at the same rate.

1 **SECTION II – RATE DESIGN**

2 Q. WOULD YOU DESCRIBE THE COMPANY’S PROPOSED RATE DESIGN FOR
3 ANY EMERGENCY RATE RELIEF TARIFF?

4 A. Yes. The Company is proposing to increase rates on a uniform percentage basis for each
5 class, rather than a uniform rate per kwh for all rate classes. See Exhibit ____ (BJH-1),
6 page 1 of 3, column (4).

7
8 Q. DOES STAFF AGREE WITH THE COMPANY’S PROPOSED RATE DESIGN?

9 A. No.

10
11 Q. WHAT METHOD DOES STAFF PROPOSE?

12 A. Staff proposes that any emergency rate relief increase granted be collected by applying a
13 uniform rate, expressed in cents per kwh to all schedules with the exception of schedules
14 41 – 49. Schedules 41 – 49 (Street Area Light Schedules) are flat rate schedules, and are
15 not based on usage. Therefore, the rates to those schedules should be increased by the
16 average percentage increase, 32.6%. (Ex. _____ (MPP-2), line 3).

17
18 Q. DOES THE COMPANY REFER TO THE METHOD YOU ARE ADVOCATING AS A
19 UNIFORM RATE PER KWH?

20 A. No. The Company refers to it as a “single rate per kwh.” I use the term “uniform rate” or
21 “uniform cents per kwh” consistent with common terminology on the subject.

1 Q. PLEASE EXPLAIN YOUR REASONING WHY A UNIFORM RATE PER KWH
2 RATE DESIGN SHOULD BE USED.

3 A. First, a uniform rate per kwh rate design makes the total amount of revenues that are
4 collected under any emergency rate relief much easier to track and verify. A uniform
5 percentage rate design is not as easy to track and verify because volumes have to be
6 tracked by customer class or tariff schedule.

7 Second, a uniform rate per kwh is consistent with the method authorized by the
8 Commission in past interim relief cases. All grants of interim relief that I am aware of
9 have been implemented on a uniform rate per volume (kwh or therm) basis. The orders I
10 am aware of are: Puget Sound Power & Light – Cause No. U-73-57 (2d Supp.
11 Order)(January 31, 1974), Cascade Natural Gas – Cause No. U-74-20 (2d Supp. Order)
12 (July 23, 1974), Washington Water Power – Cause No. U-77-53 (2d Supp.
13 Order)(September 23, 1977), Puget Sound Power & Light Co. – Cause No. U-80-10 (2d
14 Supp. Order)(June 25, 1980), Washington Water Power Co. – Cause No. U-80-13 (2d
15 Supp. Order)(June 2, 1980), Washington Natural Gas – Cause No. U-80-111 (2d Supp.
16 Order)(March 3, 1981).

17 Third, since the emergency rate relief is related to power supply, a uniform rate
18 per kwh rate design is consistent with how power supply costs were allocated in the last
19 general rate case, Docket No. UE-991606. The primary allocator used to allocate power
20 supply costs to customer classes in that case was volumes. Therefore, any emergency
21 rate relief revenues caused by or applied toward the recovery of power supply costs
22 should also be allocated and collected on volumes, in this case kwh.

1 Fourth, a uniform rate per kwh is the easiest method to track for purposes of
2 refundability. The Company has requested, and Staff agrees, that any emergency rate
3 relief revenue that is granted should be subject to refund. A uniform rate per kwh rate
4 design also lends itself to the use of a uniform rate per kwh as a refund rate if a refund is
5 ultimately warranted. Otherwise, if the emergency rate is different by class any refund
6 rate would also have to be computed differently by tariff schedule.

7 Finally, a uniform rate per kwh would allow customers to easily understand and
8 apply the rate to their expected consumption to determine the impact.

9
10 Q. WHAT IS YOUR EVALUATION OF THE COMPANY'S REASONING FOR USING
11 A UNIFORM PERCENTAGE INCREASE AS OPPOSED TO A UNIFORM RATE
12 PER KWH?

13 A. The Company states that if a uniform rate per kwh is used, the large commercial and
14 industrial customers would not understand why they are getting a greater increase when
15 calculated as a percentage of their bill, Ex. _____ (BJH-T), page 3, lines 1-6. This
16 reasoning is not convincing. Power supply costs are a larger portion of the large volume
17 customers' overall monthly bill. If the power supply component increases in cost, then as
18 compared to the total bill, the large volume customers will see a greater percentage
19 increase than the average customer. Customers can grasp this concept.

20 The Company also proposes to use a uniform percentage increase to each of the
21 residential energy block rates to emphasize conservation and maintain the inverted rate
22 design, Ex. _____ (BJH-T, page 3, lines 14–18). This reasoning is logical. However, for
23 simplicity Staff supports a uniform cents per kwh approach. A uniform cents per kwh of

1 \$.01494 per kwh will increase residential customers monthly bill by \$8.97 for customers
2 using 600 kwh per month and \$14.63 for customers using 1000 kwh per month and
3 \$20.92 for customers using 1400 kwh per month. This equates to a 33.6%, 33.9%, and
4 33.5% increase respectively for customers using 600, 1000, and 1400 kwh per month. As
5 can be seen, the percentages are essentially the same.

6
7 Q. HAVE YOU PREPARED AN EXHIBIT SHOWING THE CALCULATION OF THE
8 UNIFORM RATE PER KWH AND PERCENTAGE INCREASE TO EACH OF THE
9 CUSTOMER CLASSES?

10 A. Yes, my Exhibit _____ (MPP-2) shows those calculations.

11
12 Q. PLEASE DESCRIBE EXHIBIT _____ (MPP-2).

13 A. This exhibit calculates first, the average percentage increase of the emergency rate relief
14 revenue as compared to base revenue (32.6% as shown on line 3). The percentage
15 increase is then applied to the revenues collected from schedules 41 – 49 to reflect an
16 average increase to these flat rate or non-volumetric schedules. The remaining portion of
17 the emergency rate relief revenue (\$76,114,000 on line 6) is divided by total volumes to
18 calculate the surcharge rate of \$.01494/kwh, as shown on line 8, to be applied to the other
19 rate schedules.

20 The second section on lines 9 – 14 shows the average increase to each of the
21 schedules. The percentage increases range from 22.5% to 48%. The reason for the
22 disparity is simply that customers whose total bill is weighted heavier by the energy
23 charge will see a greater percentage increase.

1 The third section on lines 15 – 16 shows the effects of applying a uniform rate per
2 kwh on each block for residential customers at various levels of usage.

3

4 Q. DO YOU HAVE ANY FURTHER DIRECT TESTIMONY AT THIS TIME?

5 A. No.

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