**Exhibit No. \_\_\_ (JLB-1T)**

**Dockets UE-140188/UG-140189**

**Witness: Jason L. Ball**

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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| **WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,**  **Complainant,**  **v.**  **AVISTA CORPORATION,**  **Respondent.** | **DOCKET UE-140188 and DOCKET UG-140189**  **(*Consolidated*)** |

**TESTIMONY OF**

**Jason L. Ball**

**STAFF OF**

**WASHINGTON UTILITIES AND**

**TRANSPORTATION COMMISSION**

***Pro Forma Net Power Supply Expense,***

***The Energy Recovery Mechanism, and Load Forecasting***

**July 22, 2012**

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Exhibit No. \_\_\_\_(JLB-2) Testimony of Alan P. Buckley

Exhibit No. \_\_\_\_(JLB-3C) Net Power Supply Expense

Exhibit No. \_\_\_\_(JLB-4C) ERM Authorized Power Supply Expense

Exhibit No. \_\_\_\_(JLB-5) Avista Response to Staff Data Request No. 162

# INTRODUCTION

## 

## Q. Please state your name and business address.

A. My name is Jason L. Ball. My office address is the Richard Hemstad Building, 1300 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia, Washington 98504. My email address is [jball@utc.wa.gov](mailto:jball@utc.wa.gov).

## Q. By whom are you employed and in what capacity?

A. I am employed by the Washington Utilities and Transportation Commission (Commission) as a Regulatory Analyst. Among other duties, I am responsible for financial and accounting analysis, load forecasting, and power supply issues of the investor-owned electric and gas utilities under the jurisdiction of the Commission.

**Q. How long have you been employed by the Commission?**

A. I have been employed by the Commission since June 2013.

## Q. Would you please state your educational and professional background?

A. I graduated from New Mexico State University in 2010 with a Bachelor of Arts dual-major in Economics and Government. In 2013, I graduated with honors from New Mexico State University with a Masters of Economics specializing in Public Utility Policy and Regulation. Since joining the Commission I participated in several dockets providing analysis in support of other witnesses including: Avista Corporation (Avista or Company) Purchased Gas Adjustment in Docket UG-131748, Puget Sound Energy’s (PSE) Power Cost Only Rate Case in Docket UE-130617, and Pacific Power and Lights (PacifiCorp) general rate case in Docket UE-130043. I presented Staff recommendations to the Commission at open meetings in Dockets UE-131623, UE-131565, and UE-140617. I prepared memoranda summarizing Staff’s positions in Dockets UE-131625 and UG-131626 involving low income assistance programs. I also reviewed Avista’s Energy Recovery Mechanism annual true-up in Docket UE-140540. I am the lead analyst for matters relating to the Bonneville Power Administration’s Residential Exchange Program, for customers of Avista, PSE, and PacifiCorp.

## Q. Have you testified previously before the Commission?

A. No.

# SCOPE AND ORGANIZATION OF TESTIMONY

## 

## Q. Are you adopting the testimony of any other Staff member?

A. Yes. I adopt the testimony of Alan P. Buckley. His testimony is attached as Exhibit No. \_\_\_ (JLB-2). Mr. Buckley is unavailable to testify in this docket.

## Q. What issues are addressed in Exhibit No. \_\_\_(JLB-2)?

A. The testimony in Exhibit No. \_\_\_(JLB-2) addresses the following issues:

1. pro forma net power supply expense, including pro forma transmission expenses and revenues;
2. pro forma transmission capital expenditures on power supply expense; and
3. the Company’s proposed modifications to the retail revenue credit in the Energy Recovery Mechanism

These recommendations are based on an analysis of the direct testimony and exhibits of Avista witnesses Kalich, Johnson, Lafferty, and Kinney, as well as their associated workpapers and responses to data requests.

## Q. Do you agree with the recommendations and conclusions in Exhibit No. \_\_\_(JLB-2)?

A. Yes with two refinements. First, as I explain in Section III of my testimony, the Company has provided updated power supply costs through its response to Staff Data Request 171. Second, as I explain in Section IV of my testimony, the Company’s proposed changes to the Energy Recovery Mechanism are not necessary if the Commission approves decoupling.

## Q. Are you presenting any other issues or recommendations in your testimony?

A. Yes. In Section V, I present Staff’s acceptance of the Company’s load forecast as it relates to the attrition study proposed by Staff witness Mr. McGuire.

# UPDATED POWER SUPPLY COSTS

## 

## Q. What Power Supply Costs have Avista updated?

A. In response to Staff Data Request 171, the Company provided updated power supply and transmission expenses through the month of June, updating purchased power expense, sales for resale, and other related accounts. Page 1 of my Exhibit No.\_\_\_ (JLB-3C) summarizes the differences between the power supply and transmission expenses included in the Company’s original filing,[[1]](#footnote-2) as updated through the response to Staff Data Request 171,[[2]](#footnote-3) and the changes proposed by Staff.[[3]](#footnote-4)

## Q. Are these updates consistent with the recommendations in Exhibit No. \_\_\_(JLB-2)?

A. Yes. These updates are consistent with the recommendations concerning traditional updates (Category 1)[[4]](#footnote-5) and include all of the recommended changes to correct minor errors (Category 2).[[5]](#footnote-6)

## Q. What additional changes is Staff proposing?

A. Staff proposes an adjustment to Purchased Power to reflect increased market purchases in 2015 necessary to serve 2015 load.

## Q. Why is it necessary to adjust for 2015 loads?

A. The adjustment for 2015 loads is necessary to reflect the incremental cost of serving load in 2015. Staff’s case relies on the attrition study discussed by Mr. McGuire to trend non-power supply related costs through the 2015 rate year. In order to match the power supply expense to the 2015 time frame, Staff adjusts power supply expense from its base June 2013 CBR loads to the 2015 rate year loads. If this adjustment is not made, the Company would not recover the appropriate level of costs from serving that load. This adjustment relies on the 2015 load forecast, which I discuss in Section V of my testimony.

The calculation of this adjustment is depicted on page 3 of my Confidential Exhibit No. \_\_\_(JLB-3C).

## Q. How are these updates and changes reflected in Staff’s case?

A. The results of the updates to Power Supply Costs, as well as the Staff adjustment for 2015 loads, are reflected in Staff’s electric attrition analysis presented in Mr. McGuire’s Exhibit No.\_\_\_ (CRM-2).[[6]](#footnote-7)

## Q. Has the Company included a similar adjustment in its direct case?

A. Yes. Company witness Ms. Andrews describes a similar adjustment in the Company’s attrition model.[[7]](#footnote-8)

## Q. Will there be a need for any further updates?

A. Yes. As outlined in Exhibit No. \_\_\_(JLB-2), the Commission has traditionally allowed updates to power supply and transmission expense. This is due to the ongoing nature of market pricing and contract negotiations. These updates include:

* updates to the three-month average of natural gas and electricity market prices;
* new short-term contracts for gas and electric;
* updates or corrections to power and transmission service contracts.[[8]](#footnote-9)

Based on informal discussions with Avista, some of these updates will not be available until early October, which is past the rebuttal filing deadline. Although the power supply costs reflected in Staff’s present case have been updated, continuing operations will still affect power supply and transmission expenses. Therefore, instead of providing this information on rebuttal, as discussed in Exhibit No. \_\_\_(JLB-2), Staff now recommends the Company provide the information in early October.

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## Q. Will an update in early October still give all interested parties enough time to properly review the updates?

A. Yes.

# ENERGY RECOVERY MECHANISM

## 

## Q. What do you address in this section of your testimony?

A. I address Staff’s proposed changes to the Retail Revenue Credit calculation in the Energy Recovery Mechanism, under decoupling. I also discuss Staff’s review of the Company’s proposed changes to the Retail Revenue Credit and Staff’s recommendation if the Commission does not approve decoupling.

## Q. Please describe Avista’s Energy Recovery Mechanism.

A. The Energy Recovery Mechanism (ERM) is a Commission-approved mechanism under which the Company defers variations (increases or decreases) from a base level of variable power supply expense. This deferral is subject to sharing bands, which dictate how much of the increase or decrease is absorbed (or enjoyed) before rates go up (or down) due to power costs. Part of the deferral calculation includes the Retail Revenue Credit.

## Q. What is the Retail Revenue Credit?

A. The Retail Revenue Credit adjusts power supply expense recovered through the ERM for the increase or decrease in revenues due to variations in load. The Retail Revenue Credit calculation is based on the production and transmission assets that are part of the rate base determined by the Commission in a rate case.

**Q. How does the Retail Revenue Credit relate to the ERM?**

A. The Retail Revenue Credit is expressed in dollars per MWh. When multiplied by the variation in load during an ERM deferral period, the Retail Revenue Credit serves to offset (or supplement) ERM recovered expenses. Without the Retail Revenue Credit, the amounts deferred through the ERM would be too high (or too low).

## Q. How is the Retail Revenue Credit calculated currently?

A. The Retail Revenue Credit is currently calculated using “production and transmission revenue, expense, and rate base amounts.”[[9]](#footnote-10) These costs are divided by Washington retail load and multiplied by the ratio of energy-classified costs versus total production related costs to determine a dollar per MWh figure. This calculation is in more detail in the testimony of Company Witness Ms. Knox.[[10]](#footnote-11) Staff witness Mr. Schooley also explains the Retail Revenue Credit calculation in the context of decoupling. [[11]](#footnote-12)

## Q. Is Staff proposing any changes to the Retail Revenue Credit, if the Commission approves full decoupling for electric service?

A. Yes. Staff proposes that the Retail Revenue Credit be changed to include only variable power supply expense and revenue. This means the Retail Revenue Credit will no longer include fixed production and transmission-related revenue, rate base and expenses. Further, Staff is also updating the Retail Revenue Credit to reflect the costs of serving 2015 rate year loads.

**Q. Is Staff proposing any changes to the Retail Revenue Credit, if the Commission does not approve full decoupling for electric service?**

A. Yes. If the Commission does not approve full decoupling for electric service, Staff recommends the Commission accept the Company’s proposed changes to the Retail Revenue Credit.

## Q. Have you prepared an exhibit which describes the changes to the Retail Revenue Credit if the Commission approves full decoupling?

A. Yes. My Confidential Exhibit No. \_\_\_ (JLB-4C) details the calculation of the Retail Revenue Credit as proposed by Staff, assuming full decoupling.

## Q. Please compare Staff’s proposed calculation of the Retail Revenue Credit in your Exhibit No. \_\_\_ (JLB-4C), to the current calculation.

A. For the purposes of my testimony, the key element is that the current calculation includes fixed production- and transmission-related rate base. By comparison, Staff’s proposed Retail Revenue Credit consists only of variable power supply expenses and revenues (including Staff’s adjustment for 2015 load as described in section III of my testimony) divided by the Company’s 2015 projected retail sales.

The Retail Revenue Credit calculated in this manner is $20.09 per MWh, as shown on my Exhibit No. \_\_\_ (JLB-4C), line 12. The Company’s figure is $33.60 per MWh.[[12]](#footnote-13)

## Q. Why is staff proposing to exclude fixed production and transmission–related revenues, expenses and rate base from the Retail Revenue Credit calculation?

A. The current method to calculate the Retail Revenue Credit provides a guaranteed recovery of fixed production related assets. If the Commission approves full decoupling, as proposed by Avista and Staff, then it is more appropriate for all fixed costs, including production related assets, to be recovered through the decoupling mechanism. As discussed in the testimony of Staff witness Mr. Schooley, the decoupling mechanism is a method to provide recovery of fixed costs, including fixed production items. However, if revenues related to fixed production related assets remain in the Retail Revenue Credit, they are removed from the basis which determines the decoupled revenues. Leaving these fixed production related costs in the Retail Revenue Credit subjects them to the sharing bands of the ERM. This is not consistent with the policy goals of decoupling.

## Q. You indicated earlier that if the Commission does not approve decoupling, Staff recommends the Commission approve the changes to the Retail Revenue Credit that Avista proposes. What are those changes?

A. In brief, the Company proposed continuing the changes to the retail revenue credit that were implemented as a part of the Multi-Party Settlement Agreement in Docket UE-120436. These changes are discussed in more detail in Exhibit No. \_\_\_(JLB-2).[[13]](#footnote-14)

# LOAD FORECASTING

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## Q. How does Staff use the Company’s load forecast in this case?

A. Staff uses the Company’s load forecast in the attrition adjustment sponsored by Staff witness Chris McGuire. As explained in his testimony, Staff uses the load forecast to determine expected growth in billing determinants which, in turn, is used to calculate the expected growth in retail revenue between the test year and the rate year.

## Q. What are billing determinants?

A. Billing determinants are the units of consumption upon which a price is applied. For example, to determine fixed charge revenues for a customer class with a simple rate structure, the billing determinants would be the number of customers each month. The monthly customer count multiplied by the monthly fixed charge yields the monthly fixed charge revenue for that class.

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## Q. Is it appropriate to use the load forecast for projecting revenues in this manner?

A. Yes. The Company’s revenues are determined by the price per kWh or therm, multiplied by the quantity of kWh or therms used, plus the number of customer (billing determinants) times the monthly customer charge. Price is a constant because it can only vary with external model inputs, such as changes in rates.

The billing determinants for kWh or therm volumes may vary significantly due to seasonal fluctuations, weather, economic conditions, etc. Seasonal and temperature fluctuations must be “normalized” by long-term averages before applying customer growth expectations. Taken together, these factors contribute to the projections in the quantity of both billing determinants. This is the essence of a load forecast.

Alternatively, one could quantify trends in the Company’s revenues that capture not only the trend in consumption, but also the changes in prices. The use of the load forecast priced at current rates is a far more sophisticated analysis and a more relevant result.

**Q. Is there evidence that Avista’s load forecast is accurate?**

A. Yes. Based on the Company’s response to Staff Data Request 161, attached as Exhibit \_\_\_ (JLB-5), the electric load forecast for 2013 presented in Avista’s last GRC was within 0.86% of 2013 normalized actual loads. The Company’s forecast of natural gas therm usage for 2013 was within 0.08% of actual 2013 normalized usage.

## Q. Has Avista modified its forecasting methodology since the last general rate case?

A. Yes. As outlined in the Company’s response to Staff Data Request 162, the Company made many modifications to the load forecast including:

* The use of the Statistical Analysis System (SAS) Econometrics and Time Series (ETS) analysis software published by the SAS Institute;
* Using dummy variables to more accurately capture seasonal fluctuations;
* Introducing new several new explanatory variables for usage per customer; and
* Increasing the number of sources used to for general economic indicators.

## Q. How should these changes impact the Company’s load forecast?

A. These changes should increase the accuracy of Avista’s load forecast. By using a more sophisticated and robust statistical analysis software, the Company will be able to model with more certainty the load growth. Nonetheless, long term projections of load necessarily are less certain than shorter term forecasts. Therefore, reliance on a load forecast for purposes of setting rates should remain within a short-term (5-year) horizon.

## Q. Does this conclude your testimony?

A. Yes.

1. The Company’s original filing is summarized in the “As Filed” column of Exhibit No. \_\_\_(JLB-3C), at 1. [↑](#footnote-ref-2)
2. The Updated information is summarized in the “Updated” column of Exhibit No. \_\_\_(JLB-3C), at 1. [↑](#footnote-ref-3)
3. Staff’s Changes are summarized in the “Staff Rate year” column of Exhibit No. \_\_\_(JLB-3C), at 1. [↑](#footnote-ref-4)
4. Ball, Exhibit No. \_\_\_(JLB-2) at 10:7 – 11:3. [↑](#footnote-ref-5)
5. Ball, Exhibit No. \_\_\_(JLB-2) at 11:5 – 12:2. [↑](#footnote-ref-6)
6. McGuire, Exhibit No.\_\_\_ (CRM-2). Pro forma net power supply costs are summarized on pages 4-5, column [I] of that exhibit. [↑](#footnote-ref-7)
7. Andrews Direct, Exhibit No. \_\_\_(EMA-1T) at 20:13-17. [↑](#footnote-ref-8)
8. This includes the WNP-3 tariff, the Rocky Reach and Rock Island power purchase, the Colville Tribe’s Well’s power purchase, and the Spokane Waste-to-Energy power purchase. [↑](#footnote-ref-9)
9. Knox Direct, Exhibit No. \_\_\_(TLK-1T) at 8:16-17. [↑](#footnote-ref-10)
10. *Id*. at 8:6-13. [↑](#footnote-ref-11)
11. Schooley Direct, Exhibit No. \_\_\_(TES-1T) at 33:5-8 and 33:17-34:11. [↑](#footnote-ref-12)
12. *Id.* at 9:10. [↑](#footnote-ref-13)
13. Ball, Exhibit No. \_\_\_(JLB-2) at 13:18 – 15:12. [↑](#footnote-ref-14)