

Exhibit No. ___ (JLB-1T)
Dockets UE-140188/UG-140189
Witness: Jason L. Ball

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**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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LIST OF EXHIBITS

- 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

1 I. INTRODUCTION

2
3 Q. Please state your name and business address.

4 A. My name is Jason L. Ball. My office address is the Richard Hemstad Building, 1300
5 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia, Washington
6 98504. My email address is jball@utc.wa.gov.

7
8 Q. By whom are you employed and in what capacity?

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

13
14 Q. How long have you been employed by the Commission?

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

16
17 Q. Would you please state your educational and professional background?

18 A. I graduated from New Mexico State University in 2010 with a Bachelor of Arts dual-
19 major in Economics and Government. In 2013, I graduated with honors from New
20 Mexico State University with a Masters of Economics specializing in Public Utility
21 Policy and Regulation. Since joining the Commission I participated in several
22 dockets providing analysis in support of other witnesses including: Avista
23 Corporation (Avista or Company) Purchased Gas Adjustment in Docket UG-131748,

1 Puget Sound Energy's (PSE) Power Cost Only Rate Case in Docket UE-130617, and
2 Pacific Power and Lights (PacifiCorp) general rate case in Docket UE-130043. I
3 presented Staff recommendations to the Commission at open meetings in Dockets
4 UE-131623, UE-131565, and UE-140617. I prepared memoranda summarizing
5 Staff's positions in Dockets UE-131625 and UG-131626 involving low income
6 assistance programs. I also reviewed Avista's Energy Recovery Mechanism annual
7 true-up in Docket UE-140540. I am the lead analyst for matters relating to the
8 Bonneville Power Administration's Residential Exchange Program, for customers of
9 Avista, PSE, and PacifiCorp.

10
11 **Q. Have you testified previously before the Commission?**

12 A. No.

13
14 **II. SCOPE AND ORGANIZATION OF TESTIMONY**

15
16 **Q. Are you adopting the testimony of any other Staff member?**

17 A. Yes. I adopt the testimony of Alan P. Buckley. His testimony is attached as Exhibit

18 No. ___ (JLB-2). Mr. Buckley is unavailable to testify in this docket.

19
20 **Q. What issues are addressed in Exhibit No. ___ (JLB-2)?**

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

- 22 1) pro forma net power supply expense, including pro forma transmission
23 expenses and revenues;

- 1 2) pro forma transmission capital expenditures on power supply expense; and
2 3) the Company's proposed modifications to the retail revenue credit in the
3 Energy Recovery Mechanism

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

7
8 **Q. Do you agree with the recommendations and conclusions in Exhibit No.**

9 ___(JLB-2)?

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

15
16 **Q. Are you presenting any other issues or recommendations in your testimony?**

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

19
20 **III. UPDATED POWER SUPPLY COSTS**

21
22 **Q. What Power Supply Costs have Avista updated?**

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

7
8 **Q. Are these updates consistent with the recommendations in Exhibit No. ____ (JLB-
9 2)?**

10 A. Yes. These updates are consistent with the recommendations concerning traditional
11 updates (Category 1)⁴ and include all of the recommended changes to correct minor
12 errors (Category 2).⁵

13
14 **Q. What additional changes is Staff proposing?**

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

17
18 **Q. Why is it necessary to adjust for 2015 loads?**

19 A. The adjustment for 2015 loads is necessary to reflect the incremental cost of serving
20 load in 2015. Staff's case relies on the attrition study discussed by Mr. McGuire to

¹ The Company's original filing is summarized in the "As Filed" column of Exhibit No. ____ (JLB-3C), at 1.
² The Updated information is summarized in the "Updated" column of Exhibit No. ____ (JLB-3C), at 1.
³ Staff's Changes are summarized in the "Staff Rate year" column of Exhibit No. ____ (JLB-3C), at 1.
⁴ Ball, Exhibit No. ____ (JLB-2) at 10:7 – 11:3.
⁵ Ball, Exhibit No. ____ (JLB-2) at 11:5 – 12:2.

1 trend non-power supply related costs through the 2015 rate year. In order to match
2 the power supply expense to the 2015 time frame, Staff adjusts power supply
3 expense from its base June 2013 CBR loads to the 2015 rate year loads. If this
4 adjustment is not made, the Company would not recover the appropriate level of
5 costs from serving that load. This adjustment relies on the 2015 load forecast, which
6 I discuss in Section V of my testimony.

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

9
10 **Q. How are these updates and changes reflected in Staff's case?**

11 A. The results of the updates to Power Supply Costs, as well as the Staff adjustment for
12 2015 loads, are reflected in Staff's electric attrition analysis presented in Mr.
13 McGuire's Exhibit No. ___ (CRM-2).⁶

14
15 **Q. Has the Company included a similar adjustment in its direct case?**

16 A. Yes. Company witness Ms. Andrews describes a similar adjustment in the
17 Company's attrition model.⁷

18
19 **Q. Will there be a need for any further updates?**

⁶ McGuire, Exhibit No. ___ (CRM-2). Pro forma net power supply costs are summarized on pages 4-5, column [I] of that exhibit.

⁷ Andrews Direct, Exhibit No. ___ (EMA-1T) at 20:13-17.

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

- 4 • updates to the three-month average of natural gas and electricity market
5 prices;
- 6 • new short-term contracts for gas and electric;
- 7 • updates or corrections to power and transmission service contracts.⁸

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

15
16 **Q. Will an update in early October still give all interested parties enough time to**
17 **properly review the updates?**

18 A. Yes.

19

20 IV. ENERGY RECOVERY MECHANISM

21

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

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.

1 A. I address Staff's proposed changes to the Retail Revenue Credit calculation in the
2 Energy Recovery Mechanism, under decoupling. I also discuss Staff's review of the
3 Company's proposed changes to the Retail Revenue Credit and Staff's
4 recommendation if the Commission does not approve decoupling.
5

6 **Q. Please describe Avista's Energy Recovery Mechanism.**

7 A. The Energy Recovery Mechanism (ERM) is a Commission-approved mechanism
8 under which the Company defers variations (increases or decreases) from a base
9 level of variable power supply expense. This deferral is subject to sharing bands,
10 which dictate how much of the increase or decrease is absorbed (or enjoyed) before
11 rates go up (or down) due to power costs. Part of the deferral calculation includes
12 the Retail Revenue Credit.
13

14 **Q. What is the Retail Revenue Credit?**

15 A. The Retail Revenue Credit adjusts power supply expense recovered through the
16 ERM for the increase or decrease in revenues due to variations in load. The Retail
17 Revenue Credit calculation is based on the production and transmission assets that
18 are part of the rate base determined by the Commission in a rate case.
19

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

21 A. The Retail Revenue Credit is expressed in dollars per MWh. When multiplied by the
22 variation in load during an ERM deferral period, the Retail Revenue Credit serves to

1 offset (or supplement) ERM recovered expenses. Without the Retail Revenue
2 Credit, the amounts deferred through the ERM would be too high (or too low).

3
4 **Q. How is the Retail Revenue Credit calculated currently?**

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

12
13 **Q. Is Staff proposing any changes to the Retail Revenue Credit, if the Commission
14 approves full decoupling for electric service?**

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

20

⁹ Knox Direct, Exhibit No. ___(TLK-1T) at 8:16-17.

¹⁰ *Id.* at 8:6-13.

¹¹ Schooley Direct, Exhibit No. ___(TES-1T) at 33:5-8 and 33:17-34:11.

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

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

6

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

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

11

12 **Q. Please compare Staff's proposed calculation of the Retail Revenue Credit in**
13 **your Exhibit No. ___ (JLB-4C), to the current calculation.**

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

19 The Retail Revenue Credit calculated in this manner is \$20.09 per MWh, as
20 shown on my Exhibit No. ___ (JLB-4C), line 12. The Company's figure is \$33.60
21 per MWh.¹²

22

¹² *Id.* at 9:10.

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

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

14
15 **Q. You indicated earlier that if the Commission does not approve decoupling, Staff**
16 **recommends the Commission approve the changes to the Retail Revenue Credit**
17 **that Avista proposes. What are those changes?**

18 A. In brief, the Company proposed continuing the changes to the retail revenue credit
19 that were implemented as a part of the Multi-Party Settlement Agreement in Docket
20 UE-120436. These changes are discussed in more detail in Exhibit No. ___(JLB-
21 2).¹³

22

¹³ Ball, Exhibit No. ___(JLB-2) at 13:18 – 15:12.

1 temperature fluctuations must be “normalized” by long-term averages before
2 applying customer growth expectations. Taken together, these factors contribute to
3 the projections in the quantity of both billing determinants. This is the essence of a
4 load forecast.

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

9
10 **Q. Is there evidence that Avista’s load forecast is accurate?**

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

16
17 **Q. Has Avista modified its forecasting methodology since the last general rate
18 case?**

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

- 21 • The use of the Statistical Analysis System (SAS) Econometrics and Time
22 Series (ETS) analysis software published by the SAS Institute;
- 23 • Using dummy variables to more accurately capture seasonal fluctuations;

- 1 • Introducing new several new explanatory variables for usage per customer;
2 and
3 • Increasing the number of sources used to for general economic indicators.
4

5 **Q. How should these changes impact the Company's load forecast?**

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

12
13 **Q. Does this conclude your testimony?**

14 A. Yes.