

Exhibit No. ___ CT (APB-1CT)
Dockets UE-120436, et al
Witness: Alan P. Buckley
REDACTED VERSION

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

**AVISTA CORPORATION, d/b/a
AVISTA UTILITIES,**

Respondent.

**DOCKETS UE-120436/UG-120437
(consolidated)**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

**AVISTA CORPORATION d/b/a AVISTA
UTILITIES,**

Respondent.

**DOCKETS UE-110876/UG-110877
(consolidated)**

TESTIMONY OF

Alan P. Buckley

**STAFF OF WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

September 19, 2012

CONFIDENTIAL PER PROTECTIVE ORDER

TABLE OF CONTENTS

I. INTRODUCTION 1

II. SCOPE AND ORGANIZATION OF TESTIMONY 2

III. SUMMARY OF STAFF’S RECOMMENDATIONS 3

IV. PRO FORMA NET POWER SUPPLY AND TRANSMISSION EXPENSE 5

V. GENERATION AND TRANSMISSION CAPITAL ADDITIONS 9

VI. ENERGY RECOVERY MECHANISM ISSUES 13

 A. Avista’s Proposed Changes to the Structure of the ERM 15

 B. Calculation of the Retail Revenue Credit 19

 C. ERM Rate Adjustment Trigger 21

 D. Using the Credit Balance in the ERM 23

VII. COMPANY ADJUSTMENT 4.04 – RETAIL REVENUE CREDIT 24

List of Exhibits

Exhibit No. __ (APB-2), Comparison between Proposed Company and Staff Recommended

1 I. INTRODUCTION

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

4 A. My name is Alan P. Buckley. My office address is The Richard Hemstad Building,
5 1300 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia,
6 Washington 98504. My email address is abuckley@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 Senior Policy Strategist. Among other duties, I am responsible
11 for analyzing rate and power supply issues as they pertain to the investor-owned
12 electric 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 1993.

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

18 A. I received a Bachelor of Science degree in Petroleum Engineering with Honors from
19 the University of Texas at Austin in 1981. In 1987, I received a Masters of Business
20 Administration degree in Finance from the University of California at Berkeley.

21 From 1981 through 1986, I was employed by Standard Oil of Ohio (now
22 British Petroleum-America) as a Petroleum Engineer working on Alaskan North
23 Slope exploration drilling and development projects. From 1987 to 1988, I was

1 employed as a Rates Analyst at Pacific Gas and Electric Company. I was next
2 employed by R.W. Beck and Associates, an engineering and consulting firm in
3 Seattle, Washington, conducting cost-of-service and other rate studies, carrying out
4 power supply studies, analyzing mergers, and analyzing the rates of the Bonneville
5 Power Administration (“BPA”) and the Western Area Power Administration.

6 I came to the Commission in December 1993, where I have held a number of
7 positions including Utility Analyst, Electric Program Manager, and the position that I
8 now hold. I have been a witness in numerous proceedings before the Commission,
9 including several general rate cases in which I testified on power supply issues. I
10 also have testified before BPA and the Federal Energy Regulatory Commission.

11

12 II. SCOPE AND ORGANIZATION OF TESTIMONY

13

14 **Q. What is the purpose of your testimony?**

15 **A.** The purpose of my testimony is to present Staff’s recommendations regarding pro
16 forma net power supply expense, including pro forma transmission expenses and
17 revenues, but excluding costs and revenues associated with RECs included in the
18 determination of pro forma net power costs. I will discuss Staff’s treatment of
19 Avista’s proposed pro forma transmission and distribution capital addition
20 expenditures. I will also address Avista’s proposed modifications to the Energy
21 Recovery Mechanism (ERM), including Adjustment 4.04, proposed by Company
22 witness Knox in Exhibit Nos. ___ (TLK-1) and ___ (TLK-2).

1 My recommendations are based on the review of the direct testimony and
2 exhibits of Avista's witnesses Kalich, Johnson, Lafferty, Knox and Kinney, as well
3 as their associated workpapers and responses to data requests.

4
5 **Q. How is the remainder of your testimony organized?**

6 A. The remainder of my testimony is divided into five additional sections. In Section
7 III, I summarize my recommendations related to the issues identified above. In
8 Section IV, I present my proposed pro forma net power supply and transmission
9 expense adjustments. In Section V, I discuss Staff's treatment of generation and
10 transmission-related capital additions. In Section VI, I address the Company's
11 proposed changes to the Energy Recovery Mechanism. Finally, in Section VII, I
12 address the Company's proposed Adjustment 4.04 – Retail Revenue Credit.

13

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

15

16 **Q. Please summarize your recommendations in the Company's electric rate filing,**
17 **Docket UE-120436.**

18 Staff recommends the Commission:

- 19 • Reduce the revenue requirement associated with pro forma net power supply and
20 transmission expense by an initial amount equal to a reduction at the system expense
21 level of \$7.839 million. This results in a reduction to Washington jurisdictional
22 revenue requirement of \$5.355 million compared to the Company's filed case, as

1 indicated in Staff's Exhibit No. ____ (KHB-5), Electric Adjustment 3.00 – Pro Forma
2 Power Supply. This amount will be revised as a result of Commission-approved
3 updates later in this proceeding.

- 4 • Approve additions to rate base of approximately \$8.3 million related to the
5 completion of Noxon Unit 4 Upgrades that are also incorporated into net normalized
6 pro forma power supply expenses.
- 7 • Reject the Company's remaining proposed generation and transmission related
8 capital additions for 2013 and 2014. Staff's proposed Attrition Adjustment
9 addresses the impacts of the Company's increasing rate base.
- 10 • Reject the Company's proposed changes to the Energy Recovery Mechanism's
11 existing deadbands and sharing bands.
- 12 • Accept the Company's proposed changes to the Energy Recovery Mechanism's
13 calculation of the retail revenue credit, and reject, in its entirety, the Company's
14 proposed pro forma Adjustment 4.04 – Retail Revenue Credit.
- 15 • Reject the Company's proposed changes to the Energy Recovery Mechanism's
16 current rate adjustment trigger and, instead, adopt Staff's recommended reduction to
17 the trigger threshold.

18

1 **IV. PRO FORMA NET POWER SUPPLY AND TRANSMISSION EXPENSE**

2

3 **Q. Please describe your proposed adjustments to the Company's filed pro forma**
4 **net power supply and transmission expense amounts.**

5 A. After reviewing the proposed pro forma net power supply and transmission expenses
6 included in the Company's prefiled testimony, exhibits, and workpapers. I am
7 limiting my proposed adjustments to net power supply and transmission expense
8 amounts in this proceeding to those expenses identified in the Company's response
9 to WUTC Staff Data Request 223. In that data request, which I call the "June
10 update", Staff asked the Company to rerun its dispatch model using the latest
11 available information, including estimates of 2013 monthly forward gas prices,
12 additional gas and power market transactions, and any updates to Mid-C project
13 budgets that affect net power costs. These are updates Staff typically asks for.

14 I present the resulting adjustments to overall net power supply and
15 transmission expenses in my Exhibit No. ___ (APB-2), which also incorporates
16 Staff's recommendation regarding REC revenues and expenses included in pro
17 forma net power costs.

18

19 **Q. Is it unusual for Staff's power supply and transmission expense-related**
20 **recommendations to be limited to such updates?**

21 A. Yes. However, Avista filed this 2012 general rate case request only three months
22 after the effective date of rates the Commission set in the Company's 2011 general
23 rate case, in Dockets UE-110876 and UG-110877, and only one day after the agreed-

1 upon general rate case timing restrictive date set forth in the Commission approved
2 settlement of those dockets. Given the immediacy of the 2012 general rate case
3 filing, reduced controversy over power supply and transmission related expenses
4 might be expected.

5
6 **Q. What is the result of your adjustments to net power supply and transmission**
7 **costs?**

8 A. As can be seen in my Exhibit No. ___ (APB-2), pro forma net power supply expense
9 decreases from \$196.61 million to \$188.77 million on a system basis. This is a
10 decrease of \$7.839 million at system basis, expense level, or a \$5.355 million
11 decrease in Washington jurisdiction revenue requirements as compared to the
12 Company's filed case.

13 The June update, which supports my adjustments, does not indicate any
14 changes to the pro forma transmission revenue/expenses shown in the Company's
15 Exhibit No. ___ (SJK-2). However, I understand there may be final changes
16 forthcoming to BPA transmission tariffs that would affect the total net transmission
17 expense in that exhibit, and this will change the overall pro forma net power supply
18 and transmission expense. In addition, as I discuss below, my ultimate
19 recommendation would also be affected by additional updates that may take place
20 further along in this proceeding. My Exhibit No. ___ (APB-2) only shows the
21 adjustments being proposed to power supply expenses as of the filing date of my
22 testimony. Any transmission related updates should be reflected in updates to the
23 Company's Exhibit No. ___ (SJK-2).

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Q. Is Staff recommending that the Commission allow additional updates to net power supply and transmission expenses in this case?

A. Yes. Any final rates should include, unless approved otherwise as part of a settlement agreement, the effects of further updated gas costs, additional gas and power market transactions, updates to Mid-C project budgets, updates to the Colstrip O&M budget, or other known and measurable factors such as finalized transmission tariff changes, so long as Staff and other parties have a meaningful opportunity to review those items.

Q. Please describe the individual power supply or transmission expense items the Company updated in its response to WUTC Staff Data Request 223.

A. The update includes the three-month average natural gas and electric market prices as of the end of May 2012; new short-term physical and financial contracts (both gas and electric); and an update to the Palouse Wind contract. As indicated in my Exhibit No. ___ (APB-2), these updates result in various changes to power supply related accounts due, primarily, to re-dispatching the Company's AURORA model. Outside-AURORA power supply expenses, such as mark-to-market costs or benefits, also change as updates are incorporated, as do gas price sensitive items such as Gas Transportation Optimization revenues. Those power supply expense and revenue items that change due to the update are shaded under the column labeled "Update Adjustment" in Exhibit No. ___ (APB-2).

1 **Q. Will these be the same items that would change if another power supply update**
2 **is carried out prior to rates becoming effective?**

3 A. Generally, yes. However, as I stated earlier, in addition to further updates to those
4 items listed above, there may be updates to a limited number of additional power
5 supply and transmission expense items.

6
7 **Q. Will Staff and other parties have sufficient time to review additional updates**
8 **should they take place?**

9 A. Traditionally, that has been the case, so long as the updated parameters remain the
10 same as those that have been acceptable to Staff and other parties in Avista's
11 previous general rate cases.

12
13 **Q. Please compare the price of natural gas in the Company's case as filed and in**
14 **the June update.**

15 A. The natural gas prices used in the Company's dispatch model for its April 2, 2012,
16 general rate case filing are in the range of [REDACTED] to [REDACTED] per dekatherm. The natural
17 gas prices (3 month rolling average of prices at the end of May 2012) used for the
18 Company's June update are in the range of [REDACTED] to [REDACTED] per dekatherm.

19
20 **Q. Given that sharp drop in gas prices, why is the amount of your net power**
21 **supply adjustments not higher?**

22 A. I agree that, at first glance, one would expect a more significant drop in overall
23 power supply costs due to this large decrease in natural gas prices. However, the

1 effects of large declines in natural gas prices are somewhat mitigated by two main
2 factors.

3 The first mitigating factor is the decrease in off-system sales revenues.
4 Generally, market prices of electricity follow market prices of natural gas.
5 Therefore, as natural gas prices decline, so does the price Avista receives when it
6 sells electricity off-system.

7 The second mitigating factor is the overall effect on mark-to-market benefits
8 or costs due to changing natural gas prices. In this proceeding, as natural gas prices
9 have fallen, the amounts attributable to the market-to-market expenses related to
10 existing, in-place, gas and electric market transactions have increased significantly,
11 thus mitigating much of the dispatch benefits from lower natural gas and resulting
12 electric market prices.

13

14 **Q. Does this conclude your testimony on your proposed pro forma net power
15 supply and transmission expense adjustment?**

16 **A.** Yes. However, the Commission should recognize that additional testimony may be
17 warranted as a result of further potential updates.

18

19 **V. GENERATION AND TRANSMISSION CAPITAL ADDITIONS**

20

21 **Q. What is the Company proposing for pro forma generation and transmission
22 capital additions?**

1 A. The Company proposes to include in pro forma rate base projected amounts for 2012
2 and 2013 generation and transmission capital expenditures. The Company
3 summarizes generation additions in Illustration No. 8, on page 26 of Mr. Lafferty's
4 direct testimony, Exhibit No. ___ (RJL-1T). The Company summarizes its proposed
5 transmission capital expenditures for 2012 and 2013 in Tables 3 and 5, on page 20
6 and 31, respectively, of Mr. Scott J. Kinney's direct testimony, Exhibit No. ___
7 (SJK-1T).

8

9 **Q. How much pro forma rate base does Avista propose to add through these**
10 **adjustments?**

11 A. According to the direct testimony of Company witnesses Kinney and Lafferty,
12 Avista proposes approximately \$59.6 million and \$69.1 million of transmission and
13 generation capital additions to be added in 2012 and 2013, respectively.

14

15 **Q. Should the Commission accept these adjustments?**

16 A. No. Staff recommends the Commission reject the majority of these projected capital
17 additions because they are remote in time, and because Staff is addressing attrition in
18 Staff's Attrition Adjustment. Staff's attrition adjustment is sponsored by Staff
19 witness Kathryn Breda.

20

21 **Q. How has the Commission evaluated these types of projected capital addition**
22 **expenditures before?**

1 A. For those future generation and transmission expenditures proposed by the Company
2 to be included in pro forma rate base, Staff and other parties have had to carry out
3 additional, ongoing discovery to make recommendations as to the appropriateness
4 for inclusion in pro forma rate base for rate making purposes.

5
6 **Q. How has this approach been a problem?**

7 A. Yes. The very nature of having to explicitly analyze the prudence and the
8 appropriateness for cost recovery for what are usually partially completed, or even
9 projected expenditures has been a problem. For example, often during the course of
10 a proceeding, the status can change for any one, or all, of the projected capital
11 additions. This requires constant discovery and much back and forth among the
12 Company, Staff and intervening parties in order to develop recommendations.

13 Even then, often much of the expenditures are projected to take place further
14 in the future than can be reasonably analyzed during a rate case. For example,
15 Avista projects it will spend \$55.4 million of the generation and transmission capital
16 additions I identified above in 2013, a time period well after this proceeding is
17 concluded. At best, Staff and the other parties can only make a guess as to the
18 ultimate status of each and every capital addition item projected that far into the
19 future.

20 Finally, the Company's direct testimony identifies only partial or minor
21 benefits that are associated with the entire level of capital additions the Company
22 proposes to add to rate base in this proceeding. For example, the Company identifies
23 a mere \$7,800 and \$15,600 of O&M offsets related to 2012 and 2013 transmission

1 capital additions, respectively, while those additions are approximately \$25.97
2 million and \$33.60 million, respectively. This mismatching of costs and benefits for
3 incomplete and otherwise projected capital additions is a major problem when
4 evaluating their appropriateness for explicit cost recovery in rates.

5
6 **Q. Does Staff's attrition adjustment, which reflects changes to revenues, expenses
7 and rate base, eliminate all of your concerns?**

8 A. No, but the attrition analysis offers a better match of total revenues, expenses and
9 rate base than these Company plant additions adjustments.

10
11 **Q. Are there generation or transmission capital expenditures that you explicitly
12 recommend the Commission approve in this case?**

13 A. Yes. In this proceeding, I recommend the Commission accept as pro forma rate base
14 the 2012, \$8.3 million capital expenditure related to the Noxon Rapids Unit 4
15 Upgrade. The Commission should accept this amount because the additional costs,
16 as well as the increased generation benefits from this upgrade reflected in the net
17 power supply expenses in this proceeding.

18
19 **Q. Please summarize your recommendation regarding the Company's proposed
20 pro forma generation and transmission capital additions.**

21 A. The Commission should include in rate base the \$8.3 million in identified capital
22 expenditures related to the Noxon Rapids Unit 4 Upgrade. The Commission should
23 reject the Company's other projected 2012 and 2013 generation and transmission

1 capital addition costs. The Commission should accept Staff's proposed Attrition
2 Adjustment.

3

4 **VI. ENERGY RECOVERY MECHANISM ISSUES**

5

6 **Q. Please summarize the changes the Company proposes to the Energy Recovery**
7 **Mechanism.**

8 A. The Company proposes several changes to the Energy Recovery Mechanism
9 ("ERM"), while at the same time recommends the ERM continue.

10 The proposed changes include: 1) eliminating the deadbands and moving
11 entirely to a 90 percent customer/10 percent Company sharing of excess power
12 supply related costs or benefits; 2) changing the methodology for calculating ERM's
13 retail revenue credit in order to provide additional revenue for the recovery of
14 increased capital addition costs; and 3) replacing the existing ERM "trigger" with an
15 annual mechanism. The Company addresses these proposed changes in the direct
16 testimony and exhibits of Company witness William G. Johnson.

17 In addition, Avista proposes to credit to ratepayers currently the \$13.6 credit
18 balance that accumulated in the ERM during the 2011 test period.

19

20 **Q. Please summarize Staff's recommendations regarding these proposals.**

21 A. Using a "if it ain't broke, don't fix it" standard, I recommend the Commission allow
22 the ERM to continue, reject Avista's proposed changes to the deadband and sharing
23 bands, accept a change in calculating the retail revenue credit, and adopt Staff's

1 recommendation to set the ERM's trigger amount at a lower level. However, the
2 Commission should not accept annual ERM rate adjustments, unless the trigger is
3 met each year.

4 Finally, the Commission should reject Avista's proposal to credit to ratepayers
5 currently the \$13.6 million ERM credit balance.

6

7 **Q. Do you agree the ERM should continue?**

8 A. With some reluctance, yes. My reluctance stems from the simple fact that the
9 Company has continued to file one general rate case after another, in spite of the
10 ERM's existence. In these cases, the Company continues to update its power supply
11 and transmission related costs, as well as all other costs associated with operating the
12 Company. This leads me to question whether the ERM is meeting its purpose of
13 balancing risk and lowering administrative burden.

14 In addition, it appears that the Company mitigates much of its power supply
15 risk by entering into future gas and electric market transactions, anyway. By
16 allowing the Company to recover mark-to-market costs as part of net power
17 expenses when setting base rates, customers absorb much of the risk associated with
18 uncertainty and variability in power costs.

19

20 **Q. Why is Staff not recommending the Commission eliminate the ERM?**

21 A. I still recognize that the Company experiences hydro generation variability that is
22 beyond its control. This justifies continuing the ERM, which captures this
23 variability. Also, Staff's Attrition Adjustment may lessen the pressure of the

1 Company to file constant general rate cases. If general rate cases were to become
2 less common, the ERM would remain a useful tool to share power supply and
3 transmission expense risk between the Company and customers.

4
5 **A. Avista's Proposed Changes to the Structure of the ERM**

6
7 **Q. How does the Company attempt to justify replacing the ERM's deadband and**
8 **sharing bands with a simple 90 percent customer/10 percent Company sharing?**

9 A. The Company first attempts to justify the proposed change by opining that the
10 primary drivers of changes in power supply are stream flow conditions, natural gas
11 prices, market power prices, forced outages, and retail load variations and that the
12 amount the Company absorbs with the deadband and sharing bands results in a
13 random variation that the Company cannot control. The Company goes on to
14 compare power costs to that of purchased gas for natural gas customers and how the
15 Company's Purchased Gas Mechanism provides 100 percent recovery of costs.
16 (Exhibit No. ___ (WGJ-1T), at 12, lines 15-23).

17
18 **Q. Should the Commission eliminate the bands and adopt a simple 90 percent**
19 **customer and 10 percent Company sharing?**

20 A. No. The existing structure of the ERM remains reasonable and the Company
21 overstates its risk associated with the ERM as currently designed.

22 First, the Company appears to forget that net power supply expenses for base
23 rates are set on a normalized basis which reflects a large number of different stream

1 flow conditions. This means that the risks associated with variations in net power
2 supply expenses due to stream flow conditions, including variability in market power
3 prices resulting from the various water flow conditions, are already included in the
4 base rates that customer pay. Given the customer s' exposure to those risks, the
5 ERM should contain some deadband to give relevance to the normalized power
6 supply expense methodology.

7 In other words, it would be improper to set base rates using normalized
8 power supply conditions, which reflects customer exposure to certain types of risk,
9 and then allow the Company to effectively eliminate the consequences of those risks
10 by recovering, or rebating, each and every departure from the level of normalized net
11 power supply expense set in a general rate case, no matter how small.

12 Second, the dispatch models the Company uses to determine variable power
13 costs consider forced outage rates for each resource. The normalized net power
14 supply expense used to set base rates includes these factors. Moreover, the ERM
15 itself contains a retail revenue adjustment, which is designed to reflect the changes in
16 power supply expenses recovered through base rates related to changes in load,
17 another "risk" factor identified by the Company. Again, removing the deadband
18 effectively eliminates the consequences of these risks.

19 Third, I note that by the time base rates are established in a general rate case
20 proceeding, the Company has firmed or hedged a large portion of its gas
21 requirements and, as I discussed above, the market-to-market costs are included in
22 rates. This has effectively removed much of the fuel price risk that the Company is

1 exposed to, again reducing the actual level of risks that are not under the Company's
2 control. Removing the deadband would entirely eliminate this risk for the Company.

3 Finally, the Company's comparison of the ERM to a PGA mechanism is not
4 valid because a PGA mechanism is not based on a base level establish using 70 years
5 of stream flow conditions and normalized power supply ratemaking techniques.

6 Each of these factors justifies keeping the ERM's deadband and sharing
7 bands as they are presently designed.

8

9 **Q. The Company attempts to supports its proposed elimination of the ERM bands**
10 **with comments from several financial rating agencies. Do you wish to**
11 **comment?**

12 A. Yes. I am not surprised that financial rating agencies would look askance at a rate
13 setting mechanism that retains risk for a utility. I also note that the Company
14 apparently did not solicit comments from customers on risk allocation.

15

16 **Q. The Company states that eliminating the deadband and sharing bands would**
17 **have a positive effect on general rate cases because it would somehow reduce the**
18 **impact of setting base rates at the wrong level. (Exhibit No. ___ (WGJ-1T), at**
19 **17, lines 17-20) What is your response?**

20 A. It is not appropriate to support a change in ERM structure by presuming the
21 Commission will set the level of base power costs at the "wrong" level. I would also
22 add that, even assuming base rates are set at the "wrong" level, any adverse impacts
23 are certainly mitigated when the Company files general rate cases immediately after

1 the prior rates become effective, as has been the Company's practice over the last
2 few years.

3 Moreover, the presence of a deadband and sharing bands actually reduces the
4 impacts to customers of relatively small variations in annual power costs. The
5 deadband also maintains the current level of power supply risk that is reflected in the
6 Company's debt cost and its overall cost of capital. Notably, in recommending that
7 the deadband and sharing bands be eliminated, the Company did not correspondingly
8 recommend a reduction in the rate of return.

9

10 **Q. The Company provided a list of companies who have an electric power or fuel**
11 **adjustment clause, yet have no deadband or sharing bands. (Exhibit No. ____**
12 **(WGJ-1T), p. 18, lines 6-26). What is your response?**

13 A. I am confident that each and every utility on the Company's list has different
14 resource portfolios and load characteristics, and that each regulatory agency took
15 these characteristics into account in designing a fuel clause. For its part, Avista's
16 resource portfolio is significantly affected by its hydro generation resources and the
17 effect of variable stream flow conditions from one year to the next. The ERM, in
18 conjunction with the normalized power supply calculation, was specifically designed
19 to reflect Avista's unique circumstances.

20 In addition, to my knowledge, none of the listed companies, with the
21 exception of Avista itself, determines its base rates largely using normalized power
22 supply cost methodologies. Therefore, any comparison of what these other
23 companies have or do not have is not helpful for designing the ERM for Avista.

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Q. Please summarize your recommendation regarding the Company's proposal to eliminate the deadband and sharing bands within the ERM.

A. I recommend the Commission reject the changes proposed by the Company in this proceeding and maintain the ERM's existing deadband and sharing bands.

B. Calculation of the Retail Revenue Credit

Q. Turning to another ERM issue, please describe the retail revenue credit within the ERM.

A. The retail revenue credit is a mechanism within the ERM designed to reflect the change in power production expenses recovered through base retail revenues, related to changes in retail load. Within the ERM, the retail revenue credit accounts for the contribution from the revenue increase from retail rates in recovering the increased power supply costs due to loads greater than those used for setting base rates. Conversely, decreased revenues are accounted for when meeting the reduced power supply costs from loads that are less than those used for setting base rates.

Q. How is the Company proposing to change the calculation of the retail revenue credit?

A. The Company is proposing to reduce the credit that is applied when retail loads are greater than the level used to set base rates. Under the proposal, only the energy classified portion of the fixed and variable production and transmission revenue

1 requirement from the general rate case would be used to determine the credit
2 amount. The Company claims that, as designed now, the retail revenue credit gives
3 too much money back to customers when loads increase and therefore, not enough
4 revenue from load growth is available to offset costs associated with capital
5 additions. The Company's proposed changes to the retail revenue credit are
6 discussed in Mr. Johnson's direct testimony, Exhibit No. ___ (WGJ-1T), beginning
7 on page 20.
8

9 **Q. Are you supporting the Company's proposed change to the manner in which**
10 **the retail revenue credit is calculated?**

11 A. Yes, but not for all the reasons offered by Avista. While I believe the recovery of the
12 costs of capital additions is better addressed through an attrition adjustment, if
13 applicable, I support the proposed change to the revenue credit methodology because
14 it results in a better matching of the incremental, primarily energy-related change in
15 power costs as load varies, with the resulting incremental increase or decrease in
16 revenues. In other words, with reasonable incremental variations in load, it would be
17 expected that incremental power costs would be primarily energy related. The
18 Company's proposed change to the calculation of the retail revenue credit reflects
19 this.
20

21 **Q. Please summarize your recommendation regarding the Company's proposed**
22 **change to the calculation of the ERM retail revenue credit.**

1 A. I recommend the Commission accept the Company's proposed changes to the retail
2 revenue credit calculation.

3

4 **C. ERM Rate Adjustment Trigger**

5

6 **Q. Please describe Avista's proposal to change the current rate adjustment trigger
7 for the ERM.**

8 A. Presently, the ERM rate adjustment trigger is set at 10 percent of the base level of
9 revenue approved by the Commission in the prior general case, or approximately
10 \$45.3 million at the present time. The Company is proposing to eliminate the trigger
11 entirely and move to an annual ERM rate adjustment. The Company would continue
12 to file the annual ERM deferral report and the ERM review period would remain the
13 same.

14 Under the Company's proposal, the annual adjustments would occur with
15 rates that are effective July 1 of each year, based on the deferrals from the previous
16 calendar year. The Company states that its proposal will result in smaller surcharge
17 or rebate rate adjustments than using a 10 percent trigger and would be more timely
18 and understandable to customers since the adjustments would relate to a more recent
19 period. The Company's proposal is outlined in Mr. Johnson's direct testimony,
20 Exhibit No. ____ (WGJ-1T), beginning on page 23.

21

1 **Q. What is Staff's response to Avista's proposal to change the ERM trigger?**

2 A. The history of the ERM balances, the 10 percent of base revenue rate adjustment
3 trigger may be too high. For example, in 2011, with a reasonably favorable water
4 year (hydro generation was 18.2 percent above levels used to last set base rates), the
5 ERM deferral balance was in the \$12.8 million range, in the rebate direction. All
6 else being equal, it would take almost four years to build up a deferral balance that
7 would trigger an actual rate adjustment. The change proposed by Avista would
8 address those concerns.

9 However, the Commission should not accept the rest of the Company's
10 proposal. I do not favor annual rate adjustments, because there is still value in
11 recognizing that actual net power supply expenses that are tracked in the ERM may
12 vary from amounts in the rebate direction to surcharge direction annually. In order
13 to preserve some rate (or customer bill) stability, the Commission should maintain a
14 reasonable trigger.

15
16 **Q. What level of rate adjustment trigger is reasonable?**

17 A. I recommend a trigger level of \$20 million. Based on recent history, customers
18 likely would see rate adjustments after two years of favorable stream flow conditions
19 and, perhaps, a rate adjustment immediately following a year in which stream flow
20 conditions are significantly below average. This is reasonable because, historically,
21 the effect of stream flows on net power costs is more pronounced during periods of
22 low stream flows and higher market prices.

23

1 **Q. Do any of the Company's proposed changes to the ERM mechanism affect the**
2 **overall revenue requirement in this general rate case proceeding?**

3 A. The only proposed change that affects revenue requirements is the Company's
4 proposed change to the retail revenue credit. That change forms the basis for the
5 Company's proposed Adjustment 4.04, which would increase revenue requirements,
6 if the Commission adopted that change.

7

8 **D. Using the Credit Balance in the ERM**

9

10 **Q. What is the current deferral balance in the ERM?**

11 A. As of December 31, 2012, there is a \$13.6 million credit balance in the ERM. This
12 means that during the past few years, Avista and its customers have enjoyed, on
13 average, power costs that were lower than the base levels used in the ERM. The
14 \$13.6 million credit balance is what is left after the deadband and sharing bands were
15 applied.

16

17 **Q. What does Avista propose to do with that \$13.6 million credit balance?**

18 A. Avista proposes to return that credit balance to ratepayers over one year, to coincide
19 with the rate increase Avista proposes for its electric customers. Mr. Ehrbar's
20 Exhibit No. ____ (PDE-1T) at 43.

21

1 **Q. Is Avista's proposal consistent with how the ERM is designed to operate?**

2 A. No. The ERM is designed for that credit balance to remain in the ERM for the
3 benefit of ratepayers. The ERM will use that balance to offset future higher power
4 costs Avista may incur, and which survive the application of the deadband and
5 sharing bands.

6

7 **Q. What do you recommend regarding Avista's proposal relating to the \$13.6**
8 **credit balance in the ERM?**

9 A. I recommend the Commission reject the Company's proposal as inconsistent with the
10 ERM. The Commission follows the procedures of the ERM when there is a debit
11 balance, and the Commission should follow the procedures of the ERM when there
12 is a credit balance. While I assume the Commission has discretion to change the
13 ERM on an ad hoc basis, as the Company wants, there is no compelling reason in
14 this case for the Commission not to simply let the ERM work as it is designed to
15 work.

16

17 **VII. COMPANY ADJUSTMENT 4.04 – RETAIL REVENUE CREDIT**

18

19 **Q. Please summarize the Company's proposed Adjustment 4.04 – Retail revenue**
20 **Credit, and explain Staff's position regarding that adjustment.**

21 A. Company Adjustment 4.04, labeled "Retail Revenue Credit", is sponsored by
22 Avista's witness Tara L. Knox (Exhibit No. ___ (TLK-1T) at 10). This adjustment is
23 based on the discussion in Mr. Johnson's direct testimony (Exhibit No. ___ (WGJ-

1 1T) at 21-22), where he proposes changes to the calculation of the ERM's retail
2 revenue credit. Ms. Knox also testifies that the adjustment would be excluded if the
3 proposed method for determining the retail revenue credit is adopted (Exhibit No.
4 ___ (TLK-1T) at 17, line 16).

5 Staff supports the Company's proposed change to the way the retail revenue
6 credit is calculated in the ERM. Therefore, Adjustment 4.04 is moot and it should be
7 excluded as a revenue requirement adjustment.

8

9 **Q. Does this conclude your testimony?**

10 A. Yes.