

Exhibit No. ___ (TES-1T)
Dockets UE-140188/UG-1140189
Witness: Thomas E. Schooley

BEFORE THE WASHINGTON STATE UTILITIES AND TRANSPORTATION COMMISSION

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

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

Respondent.

**DOCKETS UE-140188 and
UG-140189
(Consolidated)**

TESTIMONY OF

THOMAS E. SCHOOLEY

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Policy and Decoupling

July 22, 2014

TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	SCOPE OF TESTIMONY	3
III.	POLICY ISSUES	3
	A. The Theme of Staff's Case	4
	B. Staff's Response to Avista's Policy Testimony	7
IV.	STAFF'S PROPOSED FULL DECOUPLING MECHANISM FOR ELECTRIC AND GAS SERVICE	10
	A. Introduction	10
	B. Commission History on Decoupling	12
	C. Terminology Used to Describe the Various Parts of a Decoupling Mechanism	14
	D. Description and Discussion of Staff's Full Decoupling Proposals	15
	1. Principal Features of Staff's Proposed Decoupling Mechanisms	16
	2. Addressing the Four Elements and Seven Criteria from the Decoupling Policy Statement, Pages 17-19	19
	3. Full Decoupling from an Accounting Perspective	25
	4. How Staff's Proposed Electric Decoupling Mechanism Works	26
	5. How Staff's Proposed Gas Decoupling Mechanism Works	28
	E. Staff's Response to Avista's Full Decoupling Proposals	29
V.	CONCLUSION	40

LIST OF EXHIBITS

- Exhibit No. ____ (TES-2), Staff Decoupling Proposal - Electric
- Exhibit No. ____ (TES-3), Staff Decoupling Proposal – Natural Gas
- Exhibit No. ____ (TES-4), Avista Exhibit No. ____ (PDE-9) Revised
- Exhibit No. ____ (TES-5), Decoupling Results Compared

1 **I. INTRODUCTION**

2

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

4 A. My name is Thomas E. Schooley. My business address is The Richard Hemstad
5 Building, 1300 S. Evergreen Park Drive S.W., P.O. Box 47250, Olympia, WA
6 98504. My email address is tschoole@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 the Assistant Director - Energy Regulation, Regulatory Services
11 Division. My responsibilities include direct supervision of the Commission's
12 Regulatory Analysts who review tariff filings and other applications of regulated
13 electricity and natural gas companies, and make recommendations for Commission
14 decision on those filings and applications.

15

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

17 A. I have been employed with the Commission since September 1991.

18

19 **Q. Please state your educational and professional background.**

20 A. I received a Bachelor of Science degree from Central Washington University in
21 1986. I met the requirements for a double major in Accounting and Business
22 Administration-Finance. I also have a Bachelor of Science degree in geology from
23 the University of Michigan. I passed the Certified Public Accountant exam in May

1 1989. Since joining the Commission, I have attended several regulatory accounting
2 courses, including the summer session of the Institute of Public Utilities.

3 Before obtaining my current position, I held several other positions including
4 Accounting Manager of the Energy Section and Regulatory Analyst. I testified in
5 Docket UE-960195 involving the merger between Washington Natural Gas
6 Company and Puget Sound Power & Light Company (Puget). I was the lead Staff
7 analyst in several applications for accounting treatment, including Puget Sound
8 Energy, Inc. (PSE) Dockets UE-971619 and UE-991918. I testified in the Avista
9 Corporation's (Avista or Company) general rate case, Docket UE-991606, and
10 Avista's energy recovery mechanism, Dockets UE-000972, UE-010395, UE-011595,
11 and UE-030751. I also assisted in the development of Staff testimony in Puget's
12 "PRAM 2" case, Docket UE-920630, and I presented the Staff recommendation on
13 environmental remediation in Puget Docket UE-911476.

14 I analyzed PacifiCorp d/b/a Pacific Power & Light Company's (PacifiCorp)
15 proposed accounting treatment of Clean Air Act allowances in Docket UE-940947,
16 and participated in meetings of PacifiCorp's inter-jurisdictional task force on
17 allocations. I testified in PSE's power cost only rate case, Docket UE-031725;
18 PSE's general rate cases, Dockets UE-072300/UG-072301 and UE-090704/UG-
19 090705; and PacifiCorp's general rate cases, Dockets UE-032065, UE-050684, UE-
20 061546, *et al.*, and UE-100749.

21 I presented testimony in support of PSE's decoupling in Dockets UE-
22 121697/UG-121705, and expedited rate filing, Dockets UE-130137/UG-130138.
23 Both programs were accepted by the Commission with only minor revisions.

1 I have prepared detailed statistical studies for use by commissioners and other
2 Commission employees, and have interpreted utility company reports to determine
3 their compliance with Commission regulations. I have also presented Staff
4 recommendations to the Commission in numerous open public meetings.

5
6 **II. SCOPE OF TESTIMONY**
7

8 **Q. What is the scope of your testimony in this proceeding?**

9 A. I present the policy behind Staff's case, I respond to the policy testimony of Avista
10 witnesses Mr. Morris, and I sponsor Staff's full decoupling mechanisms for Avista's
11 electric service and natural gas service.

12
13 **Q. Have you prepared any exhibits in support of your testimony?**

14 A. Yes, I have four exhibits in addition to my testimony:

- 15 • Exhibit No. ___ (TES-2), Staff Decoupling Proposal - Electric
16 • Exhibit No. ___ (TES-3), Staff Decoupling Proposal - Gas
17 • Exhibit No. ___ (TES-4), Avista Exhibit No. ___ (PDE-9) Revised
18 • Exhibit No. ___ (TES-5), Decoupling Results Compared
19

20 **III. POLICY ISSUES**
21

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

23 A. I describe the theme that underlies Staff's case, and I respond to the Company's
24 policy testimony, provided by Avista witness Mr. Morris.

1 **A. The Theme of Staff's Case**

2
3 **Q. What is the overriding theme of Staff's case?**

4 A. The overriding theme of Staff's case is that rates should be set to provide Avista a
5 reasonable opportunity to earn a fair return. The rates the Commission will set in
6 this case will be effective at or near the beginning of 2015, the rate year. However,
7 there may be a large gap in time between the test period and the rate year. For
8 instance, in the present case, the test year presented by Avista ends on June 30, 2013,
9 but the rate year is calendar year 2015. From the mid-point of the test year to the
10 mid-point of the rate year is 30 months.

11
12 **Q. How does Staff evaluate the impact of this time gap?**

13 A. The assumption in the selection of a historical test period is that the relationships
14 between revenues, costs, and rate base holds constant from the historical test year
15 through to the rate year. Staff uses an attrition analysis as the means to determine
16 whether Avista will have a reasonable opportunity to earn a fair return during the
17 initial rate effective period. Based on Staff's attrition study, Staff concluded that
18 Avista will experience earnings attrition during the rate year if rates are based solely
19 on 2013 test year levels of revenues, expenses and rate base.

20 Staff's attrition study also informed Staff on the appropriate level of rates to
21 recommend in this case. Staff believes an attrition adjustment is a proper tool to use
22 when there is sufficient evidence that the rate year will be materially different to the

1 test period impacting the utility's opportunity to earn a fair return. Staff witness
2 Chris McGuire sponsors Staff's attrition study in this case.

3 Carrying through on this theme, Staff used projected loads and billing
4 determinants in its cost of service study, revenue allocations, and rate design.

5
6 **Q. Does Staff's calculation of Avista's revenue requirements for the 2015 rate year
7 rely upon the traditional restated, pro forma results of operations?**

8 A. No.

9
10 **Q. Please explain how Staff determined Avista's revenue requirements for the 2015
11 rate year.**

12 A. Staff determination of the revenue requirements relies upon applying Staff witness
13 Mr. McGuire's attrition analysis using as a base the fully restated results of
14 operations, represented by Avista's December 31, 2013, Commission Basis Report.
15 In essence, Staff case uses this Commission Basis Report as the proper test period.
16 Mr. McGuire's attrition analysis develops growth factors to trend all expenses and
17 rate base from the 2013 test period to the 2015 rate year; determines a revenue
18 allowance that affords Avista the opportunity to earn a fair return in 2015; and adds
19 that allowance to the 2013 revenue basis. The net result is less than the 2014 electric
20 revenues, but greater than the 2014 gas revenues.

1 **Q. Please explain why Staff does not use pro forma adjustments in this case.**

2 A. Because Staff is trending expenses and rate base items in the ratemaking formula,
3 there is no need to use traditional pro forma adjustments in this case. Pro forma
4 adjustments typically are not applied to all cost changes. This can be a major
5 contributing factor to a utility's inability to achieve a fair rate of return. Staff's case
6 accepts the premise that Avista will experience attrition in the 2015 rate year;
7 therefore, it is critical to measure the changes to revenue, expense and rate base
8 collectively in the attrition analysis to provide Avista a reasonable opportunity to
9 earn a fair return in the rate year.

10 Moreover, it is much simpler to develop attrition-related growth factors for
11 all elements of the revenue requirements model over the same time frame. By
12 contrast, the various pro forma adjustments reflect various cost changes in effect
13 over different time periods. If an attrition analysis were to be applied to a baseline
14 that included pro forma adjustments, it would either need to ignore such changes, or
15 synchronize each trend rate to reflect each individual pro forma adjustment. This
16 adds significant, and unnecessary, complexity to the analysis. By the consistent use
17 of Commission Basis Reports, the trends in costs and rate base capture both price
18 changes and growth as the changes occur. Any offsetting factors are also captured
19 over the subsequent time periods.

20 Finally, pro forma adjustments, while seemingly precise, do not encompass
21 changes to expenses consistently over time, and often it is difficult to evaluate all
22 factors that may offset those changes.

1 In sum, an attrition study encompasses all changes and offsetting factors,
2 including productivity, over time. It provides the Commission with the best evidence
3 of the anticipated relationships between revenue, expenses and rate base for the rate
4 year consistent with the Commission's obligation to provide the utility a reasonable
5 opportunity to earn a fair rate of return. It is a superior analysis.

6
7 **B. Staff's Response to Avista's Policy Testimony**

8
9 **Q. What aspects of Mr. Morris's testimony do you address?**

10 A. I address the testimony of Mr. Scott Morris concerning cost pressures and capital
11 expenditures.¹ Specifically, Mr. Morris states that, "During the 2005 to 2012 period
12 the Company experienced increasing labor and employee benefit costs." I do not
13 doubt his claim and I note the Company's actions taken in late 2012 to reduce the
14 growth of operations and maintenance expenses beginning in January 2013.

15 However, it is important to note these costs are the types that are allocated across a
16 broad spectrum of expense accounts as corporate overhead.

17
18 **Q. How does Avista use this data in its primary case?**

19 A. Avista presents as its primary revenue requirements case an attrition study using cost
20 trends in its Commission Basis Reports (CBR). The Company chose 2007 through
21 2012 as the period for trending costs. While Avista held the administration and
22 general cost categories at a four percent growth rate, those increasing labor and
23 benefit costs mentioned above are components of nearly every other cost account.

¹ Morris Direct, Exhibit No. ____ (SLM-1T) at 6:1-15.

1 Staff is also concerned that Avista used the year ending June 30, 2013, for its
2 attrition adjustment. By using mid-year 2013, only one-half year of cost cutting is
3 reflected. Moreover, as Mr. McGuire explains in more detail, the trend factors
4 Avista developed use only the two points of 2007 and 2012, both during this high
5 growth period. In other words, Avista has built its attrition case using trend factors it
6 notes to be in a higher expense growth period and applies those trend rates to a year
7 which has only partially included the cost cutting measures.

8 Staff considers the Company's attrition result as overstating revenue needs
9 for the rate year of 2015.

10
11 **Q. What does Mr. Morris say about Avista's capital spending program?**

12 A. Mr. Morris states the costs to serve customers is in part driven by the "need to
13 replace and upgrade the facilities and technology we use every day."²

14
15 **Q. What is Staff's concern with Avista's capital spending programs?**

16 A. Staff is concerned about Mr. Morris's testimony that, while "in recent years, Avista
17 has chosen to not fund all of the capital investment projects proposed", the Company
18 has now ramped up its capital spending. The implication is that the Company now
19 funds projects it might not have funded previously.³

20 Staff expects Avista to act prudently and in the best interest of customers.

21 Staff witness David Gomez offers testimony on the potential that Avista's plans are
22 overstated and likely will not be achieved by or during the rate year.

² *Id.*, at 4:5-6.

³ *Id.*, at 9:22-10:1.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

Q. What other comments do you have with respect to Avista’s policy testimony about rising costs and the need for higher rates?

A. Mr. Morris’ testimony about cost increases between 2005 and 2013⁴ is not a balanced presentation; he ignores the substantial rate increases Avista’s customers have experienced since 2005. This case is about measuring attrition, to determine whether Avista will have a reasonable opportunity to earn a fair return.

Q. To provide balance to the record, please state Avista’s rate increases over the 2005-2013 time period.

A. Since 2005, Avista’s electric revenues have increased 62 percent and its natural gas margin revenues have increased by 34 percent. These revenue increases mitigate the rising costs outlined in the Company’s testimony. The increase in revenues is calculated by taking the cumulative effect of electric or gas increases as presented in the 2005-2013 Commission Basis Reports.

Q. Please summarize Staff’s response to Avista’s policy testimony regarding its costs and need for new rates to recover its rising costs.

A. In general, the theme of rising costs is not new; it has been present for Avista, and all energy companies, for some time now. Staff’s case recognizes the increases the Company is experiencing as presented in the test year. However, the need for increased profit is unnecessary. Staff’s case shows that the electric business has no need for higher rates given today’s declining cost of capital markets, and a modest

⁴*Id.* at 6: Illustration 1.

1 need for an increase in natural gas rates to recognize the increased costs of Avista's
2 safety and pipe replacement program.

3
4 **Q. Does Avista base its revenue requirements on specific budgeted projects?**

5 A. No. Avista determines its revenue requirement primarily by its attrition study. The
6 capital budgets are presented as a "cross-check" on the reasonableness of its attrition
7 analysis.

8
9 **Q. Does Staff ignore the potential for growth in rate base in the near future?**

10 A. No. Staff recognizes there will be growth in the near future, but, as Avista, we use
11 an attrition allowance to provide sufficient revenues in 2015.

12
13 **Q. Does Staff present a case that fulfills the concerns of Mr. Morris and Avista?**

14 A. Yes. Staff's case provides a fair, just, reasonable and sufficient level of revenue; and
15 the means to achieve that revenue. It is up to Avista to manage its business such that
16 it earns a fair return.

17
18 **IV. STAFF'S PROPOSED FULL DECOUPLING MECHANISM FOR**
19 **ELECTRIC AND GAS SERVICE**
20

21 **A. Introduction**

22
23 **Q. Please give a brief description of full decoupling mechanisms.**

1 A. Full decoupling mechanisms are a means to separate a utility's recovery of costs
2 and return from the amount of energy it sells.⁵ In general, a utility recovers most
3 of its costs on volumetric rates such as on a cents per kilowatt-hour basis.
4 However, a large percentage of a utility's costs are fixed in nature; these fixed
5 costs do not vary as kWh sales go up or down.

6 Moreover, historically, the Commission has set rates assuming kWh sales
7 will be normal, or the same as long-term average sales. The utility will under-
8 recover its fixed costs if kWh sales are lower than normal, or over-recover fixed
9 costs if sales are higher than normal.

10 Utility sponsored conservation programs also reduce kWh sales, and that
11 creates a disincentive for the utility to promote such programs. Full decoupling is
12 a way to inoculate the utility from the risks of over-recovering or under-
13 recovering fixed costs and to remove the utility's disincentive to promote
14 conservation measures.

15
16 **Q. Does Avista propose a full decoupling mechanism?**

17 A. Yes. Avista proposes a full decoupling mechanism. Staff's method is also full
18 decoupling.

19

⁵ See *Decoupling For Electric & Gas Utilities: Frequently Asked Questions (FAQ)*, at 2, The National Association of Regulatory Utility Commissioners, Grant & Research Department (September 2007). Fixed costs are those costs that a utility incurs to render service and can expect to remain fairly constant. *Id.*, n.1. These costs can include employee payroll, interest on debt, and maintenance expenses for power plants, gas pipelines. *Id.*

1 **B. Commission History on Decoupling**

2
3 **Q. Has the Commission addressed decoupling in the past?**

4 A. Yes. Decoupling is not new to the Commission. The Commission experimented
5 with decoupling as early as 1990. In May 1990, the Commission issued a Notice of
6 Inquiry entitled “Examining Whether There Are Regulatory Barriers to Least Cost
7 Planning for Electric Utilities.” One of the goals was to comply “with the
8 Legislature’s mandate ... that we consider policies ‘to improve the efficiency of
9 energy’ and ‘protect a company from a reduction of short-term earnings’ due to such
10 increased efficiency.”⁶

11 Later that same year, PSE petitioned for a periodic rate adjustment
12 mechanism that included deferred accounting that “would require later-period
13 reconciliation of certain adjustments to revenue collected for electricity delivered.”⁷

14 PSE’s Periodic Rate Adjustment Mechanism (PRAM) lasted about six years.
15 Under the PRAM, PSE’s allowed revenues were based on dollars per customer, with
16 rates based on cents per kilowatt-hour (kWh), as usual. The PRAM included true-
17 ups, and annual updates to power costs and conservation costs.

18 In 2007, the Commission authorized a three-year pilot decoupling mechanism
19 for Cascade Natural Gas Corporation, the terms of which were agreed to in a multi-

⁶ *Petition of Puget Sound Power & Light Company for an Order Approving a Periodic Rate Mechanism and Related Accounting*, Docket UE-901184-P, Third Supplemental Order at 4 (April 1, 1991), referencing Chapter 2, Laws of 1990, House Bill 2198 and quoting Notice of Inquiry; Docket No. UE-900385 (May 9, 1990). Puget Sound Power & Light Co. is the predecessor of PSE.

⁷ On October 10, 1990, PSE filed a concurrent docket (UE-901183-T) to implement the petition in Docket UE-901184-P.

1 party settlement.⁸ By its terms, the pilot ended on September 30, 2010, when that
2 company did not seek to extend the mechanism as a part of a general rate case filing.

3 On December 22, 2009, the Commission approved a limited decoupling
4 mechanism for Avista's natural gas utility in the context of a general rate case.⁹
5 There, Avista requested, and the Commission approved, a mechanism that allowed
6 Avista to recover lost margin attributable to company-sponsored conservation
7 programs, including those designed to educate its customers on the value of
8 conservation and to influence customer behavior.¹⁰ Commission approval included a
9 requirement that Avista meet certain targets demonstrating the success of its
10 conservation programs and required improvement in the tools Avista used to
11 evaluate, measure, and verify the actual impact of its conservation programs.¹¹

12 In late 2012, PSE filed a limited decoupling plan with the Commission.¹²
13 After much discussion, including Commission-directed workshops, the plan was
14 revamped to a full decoupling format with a three-year rate plan. On June 27, 2014,
15 the Superior Court for Thurston County issued a decision remanding the rate plan to
16 the Commission,¹³ the decision did not address decoupling specifically.¹⁴

⁸ *Utilities & Transp. Comm'n v. Cascade Natural Gas Corp.*, Docket UG-060256, Order 05 (January 12, 2007).

⁹ *Utilities & Transp. Comm'n v. Avista Corp.*, Dockets UE-090134 and UG-090135 (consolidated), Order 10 (December 22, 2009). Avista sought to make permanent its pilot decoupling program, which the Commission approved in 2007.

¹⁰ *Id.*, Order 10 at ¶ 256. Avista's decoupling proposal did not include the effects of weather or customer growth in the determination of lost margin recoverable by the utility.

¹¹ *Id.*, Order 10 at ¶ 305; *see also* Order 10, Appendix 5 at 7-8.

¹² *Applications of Puget Sound Energy, Inc., and Northwest Energy Coalition for an Order Authorizing PSE to Implement Electric and Natural Gas Decoupling Mechanisms*, Dockets UE-121697 & UG-121705 (consolidated).

¹³ Thurston County Cause Nos. 13-2-01576-2 & 13-2-01582-7 (Consolidated)

¹⁴ *Id.*, Footnote 1 of the court's order states: "Decoupling is not at issue in this appeal."

1 **Q. Does the Commission have a formal policy on regulatory mechanisms to**
2 **encourage utilities to meet or exceed their conservation targets?**

3 A. Yes. In 2010, the Commission issued its “Report and Policy Statement on
4 Regulatory Mechanisms to Encourage Utilities to Meet or Exceed Their
5 Conservation Targets” (Decoupling Policy Statement).¹⁵ This Decoupling Policy
6 Statement gives guidance on the construct of decoupling programs, but allows for
7 variations if sufficient support is provided.

8 In the Decoupling Policy Statement, the Commission listed four “Elements”
9 and seven “Criteria” the Commission expected parties to address when proposing a
10 decoupling mechanism.

11

12 **C. Terminology Used to Describe the Various Parts of a Decoupling**
13 **Mechanism**

14

15 **Q. Are there many labels for the various parts of full decoupling mechanisms?**

16 A. Yes. The Commission will see such terms as “allowed non-power supply revenue,”
17 “monthly revenue related to power supply,” “actual non-power supply revenue,” and
18 “monthly allowed non-power supply revenue per customer.” Staff finds these terms
19 confusing, and there are terms that are more descriptive. Accordingly, Staff suggests
20 different, more descriptive terms, as shown in the following table:

21

¹⁵ *Report and Policy Statement on Regulatory Mechanisms, Including Decoupling, to Encourage Utilities to Meet or Exceed Their Conservation Targets*, Docket U-100522 (November 4, 2010) (Decoupling Policy Statement).

1
2

Table 1 – Decoupling Terms

<u>Better</u>	<u>Confusing</u>
Financial Revenue Labels	
Revenue Requirement	Proposed Revenue
Variable power supply revenue	Power supply related revenue
Basic charge revenue	Fixed charge revenue
Delivery & Power Plant Revenue	Non-Power Supply Revenue
Decoupled revenues	Allowed non-power supply revenue
Decoupled Revenue per customer	Allowed non-power supply revenue per customer
Accounts Receivable Collection Labels	
Customer payments	Actual monthly revenue
Basic charge payments	Actual fixed charge revenue
Variable power supply payments	Monthly revenue related to power supply
Customer decoupling payments	Actual non-power supply revenue

3

4

In my testimony and exhibits, I use the terms in the “Better” column.

5

6

D. Description and Discussion of Staff’s Full Decoupling Proposals

7

8

Q. Does Staff propose full decoupling for Avista?

1 A. Yes. Staff proposes full decoupling mechanisms for both electric and natural gas
2 service. Staff's proposals are in generally the same form as Avista proposes, and
3 which PSE currently has.

4
5 **Q. Which of your exhibits contain the details of Staff's full decoupling proposals?**

6 A. My Exhibit No. ____ (TES-2) provides the details on Staff's electric decoupling
7 proposal and my Exhibit No. ____ (TES-3) provides the details on Staff's gas
8 decoupling proposal.

9
10 **1. Principal Features of Staff's Proposed Decoupling Mechanisms**

11
12 **Q. Please describe the principal features of Staff's full decoupling mechanism for**
13 **electric service, including the customer groups subject to the mechanism.**

14 A. The principal features of Staff's decoupling proposal for electric service are:

- 15 a) Revenue Per Customer is set to recover all fixed costs plus
16 administration and general costs, per Staff's attrition analysis. Staff excludes
17 variable power costs from decoupling because these are part of the Energy
18 Recovery Mechanism (ERM) and are properly recovered on a cents per kWh
19 basis. Revenues are based on normal megawatt-hours (MWh) projected for
20 the calendar year 2015, and numbers of customers are as projected for 2015.
- 21 b) Staff includes two general customer groups in its electric decoupling
22 proposal: the Residential group, and the Non-Residential group, defined as
23 follows.

- 1 i) The Residential group consists of customers on Avista's
2 Electric Residential Schedule 1.
- 3 ii) The Non-Residential group consists of customers on General
4 Service Schedules 11 and 12; Large General Service
5 Schedules 21 and 22; and Pumping Schedules 30, 31, and 32.
- 6 iii) Customers not included in Staff's proposed electric
7 decoupling mechanism are large industrial customers on the
8 extra-large general service Schedule 25, Staff's proposed
9 Schedule 26, and Street Lighting, Schedules 41-48. Rates for
10 Schedule 25 and proposed Schedule 26 collect fixed costs
11 based on fixed prices (basic charges or demand charges) and
12 variable costs are collected by volumetric prices. Therefore,
13 pricing follows the nature of these schedules' allocated costs
14 and decoupling is unnecessary. Street Light customers are
15 also excluded because they do not pay volumetric rates.
- 16 c) Staff proposes a sharing of earnings over the target return determined
17 by the Commission.

18

19 **Q. Please describe the principal features of Staff's full decoupling mechanism for**
20 **gas service, including the customer groups subject to the mechanism.**

- 21 A. The principal features of Staff's decoupling proposal for gas service are:
- 22 a) Revenue Per Customer is set to recover all fixed costs plus administration
23 and general costs, per Staff's attrition analysis. Staff excludes gas costs,

1 because these are recovered in the purchased gas adjustment. The remaining
2 fixed gas costs are also known as “margin” or delivery cost. Revenues from
3 delivery cost are based on normal therm sales projected for the calendar year
4 2015, and numbers of customers are as projected for 2015.

5 b) Similar to electric, Staff includes two customer groups in its gas decoupling
6 proposal: Residential, and Non-Residential, defined as follows.

7 i) The Residential group consists of the customers on Avista’s
8 Gas Residential Schedule 101.

9 ii) The Non-Residential group consists of Commercial Schedules
10 111, 112, 121, 122, 131, and 132.

11 iii) Gas customers not included in Staff’s gas decoupling
12 mechanism are industrial customers on Schedules 146 and 148. For
13 customers on these schedules, Staff proposes a rate design that
14 captures fixed costs through fixed rates leaving volumetric costs to be
15 recovered in volumetric rates. Therefore, pricing follows the nature of
16 these schedules’ allocated costs and decoupling is unnecessary.

17 c) Staff proposes a sharing of earnings over the target return determined
18 by the Commission.

19
20 **Q. Avista currently has a decoupling mechanism for its natural gas operations.**

21 **What becomes of that mechanism?**

22 A. Avista proposes to terminate its current gas decoupling mechanism effective
23 January 1, 2015, if the Commission accepts a new mechanism. Avista also proposes

1 to transfer any remaining deferral balance into the new mechanism. Staff concurs
2 with this transition plan.

3
4 **Q. Please describe the important features applicable to both electric and gas
5 decoupling mechanisms proposed by Staff.**

6 A. Staff supports Avista's proposal for a five percent increase in conservation targets.
7 Also, Staff proposes an earnings test that would return 50 percent of the earnings in
8 excess of the fair rate of return the Commission orders in this case, regardless of a
9 decoupling surcharge or rebate. In effect, this reduces Avista's return on equity after
10 the target rate of return is reached. That is, as the excess return (if any) increases, the
11 earned rate of return decreases, though not below the target level.

12
13 **2. Addressing the Four Elements and Seven Criteria from the Decoupling
14 Policy Statement, Pages 17-19.**
15

16 **Q. Earlier you noted that in the Commission's Decoupling Policy Statement, the
17 Commission listed Four Elements and Seven Criteria the Commission expected
18 a decoupling proposal to address. Do Staff's proposed full decoupling
19 mechanisms address those Elements and Criteria?**

20 A. Yes, as I explain in detail in my following answers. However, one way to view this
21 issue is to understand that Staff's decoupling proposals are similar in all substantial
22 respects to PSE's full decoupling mechanisms, and the Commission has determined
23 that PSE's mechanisms conformed to the Decoupling Policy Statement.
24 Accordingly, Staff's proposals should be acceptable, too.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29

Q. Please quote each Element from the Commission’s Decoupling Policy Statement followed by an explanation how Staff’s proposed mechanisms address each Element.

A. The first Element relates to the True-Up Mechanism:

1. True-up Mechanism. Where, between general rate cases, customer use by class deviates either higher or lower from that determined by the Commission when setting rates, a utility can seek an annual true-up of revenue attributed to each affected class of customer.

Under Staff’s proposed full decoupling mechanisms, Avista would file annually to true-up the difference between the revenues determined by the annual revenues per customer per group and the cash collections paid by customers on cents per kWh sales or cents per therm sales.

The second Element relates to rate of return:

2. Impact on Rate of Return. Evidence evaluating the impact of the proposal on risk to investors and ratepayers and its effect on the utility's ROE.

Staff proposes reducing the percentage of equity in the capital structure to 42 percent from 46 percent. This reduces the rate of return by 13 basis points. Staff witness Mr. Elgin sponsors this adjustment.

The third Element relates to an earnings test:

3. Earnings test. A proposed earnings test to be applied at the time of the true-up.

Staff proposes an earnings test to be applied at the time of the true-up. Avista would refund to customers subject to decoupling 50 percent of any earnings in excess of the target rate of return. The company retains the other 50 percent as an incentive to aggressively manage costs.

1 The fourth and final Element relates to off-system sales:

2
3 4. *Accounting for Off-System Sales and Avoided Costs.* A description of the
4 method the company intends to use to determine the financial benefits
5 associated with off-system sales or avoided costs attributable to the
6 utility's conservation efforts and then to net these benefits against the
7 true-up provided in this mechanism.¹⁶
8

9 Off-system sales and avoided power costs are captured in Avista's Energy
10 Recovery Mechanism (ERM). The Company and the customers benefit through the
11 operation of the bands in the ERM.
12

13 **Q. Turning to the seven Criteria the Commission has listed, please quote each one,**
14 **followed by your explanation why Staff's proposed decoupling mechanisms**
15 **satisfy each Criterion.**

16 A. First, I note that these Criteria are found on pages 12-13 of the Commission's
17 Decoupling Policy Statement. The first Criterion relates to the customer groups
18 included in decoupling:

19 1. *Application to Customer Classes.* Generally, a full decoupling proposal
20 should cover all customer classes. However, where in the public interest
21 and not unlawfully discriminatory or preferential, the Commission will
22 consider a proposal that would apply to fewer than all customer classes.
23

24 As I explained earlier, Staff's proposal for electric decoupling includes all
25 customers except customers on Schedule 25, Extra Large General Service, and on
26 Staff's proposed Schedule 26, Ultra-large General Service. Staff proposes to
27 redesign the rates on these schedules to achieve full recovery of fixed costs in the
28 basic and demand charges. This renders the need for decoupling moot, because these

1 customer's volumetric charges contain no fixed costs so there is nothing left to
2 "decouple."

3 Staff also excludes Street and Lighting customers because they are on fixed
4 price schedules the usage patterns of street lights is very predictable allowing fixed
5 prices for all costs, even power costs. Decoupling's goal of mitigating the over- or
6 under-recovery of fixed costs is irrelevant in this situation.

7 For natural gas decoupling, the customer groupings are very similar. One
8 group is the residential customers. A second group is the other schedules, but
9 excluding the transportation customers. Again, the transportation customers fully
10 recover fixed costs through basic charges and demand charges so decoupling is
11 unnecessary.

12 The second Criterion is:

13 2. *Weather adjustment mechanism.* We generally would support including
14 the effects of weather in a full decoupling proposal.
15

16 Staff's proposed decoupling mechanisms include the effects of weather
17 Avista recovers its revenues on a per customer basis regardless of weather, including
18 temperature.

19 The Commission's third Criterion relates to incremental conservation due to
20 decoupling:

21 3. *Incremental Conservation.* Evidence describing any incremental
22 conservation the company intends to pursue in conjunction with the
23 mechanism.
24

25 Staff concurs with Avista's proposal to increase its conservation targets by
26 five percent, and to achieve this increase.

1 The fourth Criterion related to low income customers, and whether or not a
2 utility's conservation program provides comparable benefits to all customers,
3 including low income:

4 4. *Low-income.* A utility proposing a full decoupling mechanism must
5 demonstrate whether or not its conservation programs provide benefits to
6 low-income ratepayers that are roughly comparable to other ratepayers
7 and, if not, it must provide low-income ratepayers targeted programs
8 aimed at achieving a level of conservation comparable to that achieved by
9 other ratepayers, so long as such programs are feasible within cost-
10 effectiveness standards.

11
12 Avista currently offers enhanced weatherization programs to qualifying low-
13 income residents. Mr. Ehrbar notes that the electric limited-income DSM budget
14 accounts for 47 percent of the overall residential DSM budget for 2014.¹⁷ Thus, it
15 appears that Avista's conservation programs provide benefits comparable to, or
16 better than, other customers. Moreover, Staff proposes Avista enhance its reporting
17 to better identify and track locations that received weatherization and to compare the
18 results to customers who receive billing assistance.

19 The fifth Criterion is:

20 5. *Duration of Program.* The Commission will generally approve a full
21 decoupling mechanism for the period required to achieve its objectives or
22 until the filing of a utility's next general rate case. Under either
23 circumstance, the burden is upon the utility to demonstrate the continued
24 need for the mechanism.

25
26 Staff agrees with Avista that the full decoupling mechanism should persist for
27 at least five years, to achieve its objectives or to at least allow for an informed
28 assessment of its effectiveness. The Commission's policy appropriately places the
29 burden upon the utility to demonstrate the continued need for the mechanism.

30 The sixth Criterion related to reporting:

¹⁷ Ehrbar Direct, Exhibit No. ____ (PDE-1T) at 72:9-20.

1 6. *Reports.* For companies authorized to implement full decoupling, the
2 Commission may require the utility to file periodic reports so the
3 Commission may evaluate the success and impact of the program. The
4 reported information must be made available to representatives of
5 customer groups, and other interested parties, so they too can evaluate the
6 program and its impact on the utility and its ratepayers.
7

8 Staff proposes to work with the Company and interested parties to develop
9 meaningful, yet not burdensome reports to gather appropriate data and keep the
10 Commission informed on these important issues. Avista proposes to file quarterly
11 reports “showing the pertinent information regarding the status of the current
12 deferral.”¹⁸ However, the Commission will need more information than just the
13 balance of the deferral to judge the effectiveness of the decoupling program on
14 enhancing conservation and reducing the Company’s sales incentive.

15 The Commission’s seventh and final Criterion is a “catch-all”:

16 7. *Other Factors Impacting the Public Interest.* The criteria listed above are
17 not intended to limit the Commission’s authority to review other factors
18 affecting its analysis of full decoupling as a regulatory tool, including
19 whether it remains in the public interest to continue its use by a particular
20 utility.
21

22 Staff’s decoupling proposals are based on revenues per customer developed
23 by determining fair revenues for the 2015 rate year, a reasonable number of
24 customers in the 2015 rate year, and the reasonable levels of kWh or therms in the
25 2015 rate year. By using 2015 factors, the revenue per customer and the customers’
26 payments to collect those revenues will already reflect load decrements from
27 conservation expected in 2015. This method captures the effect of conservation
28 activities in the future period and the costs expected in the same period. It also

¹⁸ Ehrbar Direct, Exhibit No. ____ (PDE-1T) at 67:12-13.

1 captures the expected growth in customers and the costs to serve those new
2 customers.

3 In other words, the variances between revenues and cash collections are
4 restricted to the differences between the projected metric (such as revenue per
5 customer) and the actual data for that metric. This makes the magnitude of the true-
6 up due primarily to the difference between normal temperature and actual
7 temperature.

8 9 3. Full Decoupling from an Accounting Perspective

10
11 **Q. Is it important for the Commission to understand how full decoupling works
12 from an accounting perspective?**

13 A. Yes. Often a decoupling discussion uses the term “revenue” to refer to the dollars a
14 utility may earn as well as the dollars a customer pays. This can lead to confusion.
15 In any corporation, when it sells a product or service, it books revenue (the credit)
16 and a receivable (the debit). In accounting terms, a customer does not pay “revenue”
17 to the corporation; the customer pays off the receivable. Keeping the integrity of
18 these terms is very helpful in understanding decoupling mechanisms.

19
20 **Q. How should the Commission view full decoupling from an accounting
21 perspective?**

22 A. From an accounting perspective, full decoupling separates the determination of the
23 utility’s financial revenues from the means of payment by the customers.

1 With decoupling, the utility's financial revenues are determined primarily on
2 a dollars per customer basis. There are three sources of these financial revenues: 1)
3 basic charges, which Avista recovers through a flat rate per customer per month; 2)
4 the revenue per customer charge, which is "shaped" to fit monthly sales patterns; and
5 3) variable power costs, as determined in the ERM and excluded from the revenue
6 per customer, on a cents per kWh basis.

7 These three revenue sources are credits to the Revenue account with the
8 corresponding debits to Accounts Receivable (A/R in accounting shorthand). The
9 utility collects that A/R through cash payments from the customers, first, through the
10 basic charge on a flat fee per month, and second, through the cents per kWh on the
11 electric bill. The simplified accounting for this is a debit to cash and a credit to A/R.

12 Of the three revenue sources, two are straightforward; flat basic charges are
13 collected on flat fees, and variable power costs are collected on volumetric cents per
14 kWh. The cash collections for these two sources stay in tandem with the underlying
15 revenue source. However, the decoupled revenues are determined as dollars per
16 customer, but customers pay for these based on volumetric cents per kWh. This
17 creates the need to defer the difference for later payment or rebate.

18 19 **4. How Staff's Proposed Electric Decoupling Mechanism Works**

20
21 **Q. Have you prepared an exhibit that shows how Staff's proposed electric full**
22 **decoupling mechanism works?**

23 **A.** Yes, I provide an illustrative example in my Exhibit No. ____ (TES-2).

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

Q. Please explain the context of that exhibit.

A. I have already explained that Decoupled Revenues are calculated on a dollars per customer basis, and that Avista collects money from its customers through basic charges and on a cents per kWh basis.

Accordingly, as Avista collects actual payments from customers over the rate period, variances will occur in both the number of customers and in the kWh sales. This creates an inherent difference between the Decoupled Revenues and cash collections. This difference needs to be resolved to allow the Company to receive its allotted revenues.

For Avista, Mr. Ehrbar presents an illustrative example¹⁹ of how the decoupling mechanism will work. Staff revises that exhibit to reflect Staff's method, but using similar assumptions. This is shown on page 4 of my Exhibit No. ____ (TES-2).

Q. Please explain page 4 of your Exhibit No. ____ (TES-2).

A. I use the residential group shown on lines 1-12 as a good starting point for explaining this page of my exhibit. Lines 1-3 show the decoupled revenues by month, by multiplying an assumed number of customers in each month by Staff's monthly revenue per customer. This represents one of the three sources of utility revenue; the others being basic charge revenue and the variable power supply revenue.

Line 4 is an assumed amount of total cash bill payments from customers.

Actual Basic Charge Payments are determined by multiplying the assumed actual

¹⁹ Ehrbar, Exhibit No. ____ (PDE-9) at 4.

1 customers by the basic charge and Variable Power Supply Payments are determined
2 by multiplying assumed kWh usage by the Retail Revenue Credit, as shown on lines
3 5-8.²⁰ The basic charge payments and variable power supply payments are deducted
4 from the total bill payments. The result on line 9 is the actual customer decoupling
5 payments.

6 Line 10 shows the difference between the allowed Decoupled Revenue and
7 the customer decoupling payments. This is the monthly deferral surcharge or rebate.
8 Line 11 calculates interest on the cumulative balances and line 12 shows the
9 cumulative balance including interest.

10 11 **5. How Staff's Proposed Gas Decoupling Mechanism Works**

12
13 **Q. Does Staff's proposed natural gas full decoupling mechanism closely follow the**
14 **electric full decoupling mechanism?**

15 A. Yes. The natural gas decoupling is quite similar to electric decoupling. As with
16 electric, Staff's natural gas decoupling uses the commission basis reports for 12
17 months ending December 31, 2013. From this base, long-term cost and rate base
18 trends are applied to determine the expected 2015 rate base and costs. The 2015 load
19 forecast and customer growth is used to determine the gas margin costs and revenues
20 at current prices.

21 Once these factors are determined, Staff calculates the revenue deficiency for
22 2015. Then, the decoupling revenues for 2015 may be calculated in the same

²⁰ The actual operation of the decoupling mechanism will use, the actual payments of basic charges.

1 manner as the electric decoupling revenues. My Exhibit No. ____ (TES-3) presents
2 Staff's natural gas full decoupling mechanism.

3
4 **E. Staff's Response to Avista's Full Decoupling Proposals**

5
6 **Q. Please give a brief description of Avista's decoupling proposal.**

7 A. Though its witness Mr. Ehrbar, Avista proposes full decoupling mechanisms for both
8 gas and electric operations. These are similar to the mechanisms the Commission
9 approved for PSE. Under Avista's proposal, electric financial revenues would be
10 based on an annual dollar per customer metric. Avista would collect those revenues
11 on a cents per kWh basis, with a later true-up to the annual dollar per customer
12 revenue level.

13 Similarly, for natural gas, Avista proposes to determine fixed delivery
14 revenues through use of an annual dollar per customer metric, and collects money
15 partly through basic charges and partly on a cents per therm basis. Avista would
16 make an annual filing to true-up the differences between the revenues from the
17 dollars per customer and the cash collections from the cents per therm. Avista also
18 commits to increase its conservation targets by five percent and includes an earnings
19 test.

20
21 **Q. What is the primary difference between decoupling for PSE and Avista's full**
22 **decoupling proposals?**

1 A. The primary difference is that PSE recovers production plant costs through its Power
2 Cost Only Rate Case mechanism, but Avista does not have an equivalent
3 mechanism. Avista's ERM only captures variable power cost accounts. Therefore,
4 when PSE reduces total revenues by the power supply revenues, it also removes
5 production plant related revenues from its decoupled revenues. Similarly, Avista
6 removes variable power supply revenues, but this removal should not include
7 production plant related revenues. Consequently, the production plant is now
8 captured in the decoupled revenue basis. Therefore, Avista's revenues per customer
9 will be greater than PSE's, all else equal.

10

11 **Q. Please briefly describe Avista's Energy Recovery Mechanism.**

12 A. Normal variable power costs are included in general rates and are the baseline for the
13 Energy Recovery Mechanism. As actual power costs occur the ERM captures those
14 costs with the goal of passing on to customers the actual costs, although with many
15 caveats on when and how much. A "Retail Revenue Credit" in the ERM adjusts
16 power cost variations with an offset to capture over or under recovery of production
17 plant due to kWh sales above or below the norm. Avista uses the Retail Revenue
18 Credit as a measure of variable power cost in its decoupling mechanism.²¹

19

20 **Q. Where in the Company's direct case does Avista describe its electric and gas full**
21 **decoupling proposals?**

22 A. Avista's full decoupling proposals for gas and electric service are found in Avista
23 witness Mr. Ehrbar's testimony and exhibits. He addresses full decoupling for

²¹ Staff offers a revision to the Retail Revenue Credit in its decoupling mechanism, as described later.

1 electric and gas services in his Exhibit No. ____ (PDE-1T) at 49:1-54:3. In particular,
2 he describes the details of calculating the electric revenues per customer in his
3 Exhibit No. ____ (PDE-1T) at 54:4-56:20 and in his Exhibit No. ____ (PDE-9).

4 Mr. Ehrbar addresses full decoupling for natural gas service in Exhibit No.
5 ____ (PDE-1T) at 61:1-67:4 and in his Exhibit No. ____ (PDE-10).

6
7 **Q. In his testimony, Mr. Ehrbar uses certain “steps” to describe the way the**
8 **mechanism works. Using the same “steps,” please compare the Company’s**
9 **electric full decoupling proposal to Staff’s.**

10 A. *Step 1*²²– Avista determines total proposed revenues by adding normalized test
11 period revenues at current rates plus the Company’s proposed rate increase.²³

12 Staff’s response – Staff determines the total 2015 rate year revenues
13 directly.²⁴

14 *Step 2* – Avista determines the amount of revenue related to power supply by
15 multiplying the test year normalized kWh by the retail revenue credit, as used in the
16 ERM, to derive the test year power supply related revenues by schedule.²⁵ The
17 Retail Revenue Credit in the ERM is related to production rate base.²⁶

18 Staff’s response – Staff determines the rate year variable power supply
19 revenues from the pro forma variable power supply costs for 2015. Staff determines
20 a variable power supply factor by dividing the pro forma variable power supply costs
21 by the rate year kWh which is then grossed up for revenue related taxes. Staff uses

²² Steps 1 – 5 are found in Ehrbar Direct, Exhibit No. ____ (PDE-1T) at 54:12-55:23.

²³ Ehrbar, Exhibit No. ____ (PDE-9) at 1:1-3.

²⁴ Schooley, Exhibit No. ____ (TES-2) at 1:1.

²⁵ Ehrbar, Exhibit No. ____ (PDE-9) at 1:4-6.

²⁶ The production rate base included in the ERM is that portion related to plant allocated on energy factors.

1 this factor to determine variable power supply revenues per rate group. Staff allows
2 only the net variable power supply costs (grossed up for taxes) as captured in the
3 ERM as a reduction to the decoupling groups' revenues.²⁷ Staff's revision to the
4 RRC places all production plant into the decoupling mechanism.

5 *Step 3 – Avista determines the delivery & power plant revenues by*
6 *subtracting power supply revenues from total revenues.*²⁸

7 Staff's response – Staff similarly determines delivery & power plant revenues
8 for 2015 by subtracting 2015 ERM variable power supply revenues from 2015 total
9 revenues.

10 *Step 4 – Avista determines the amount of the basic charge revenues that will*
11 *be collected from customers through the monthly basic charges by multiplying the*
12 *number of customer bills in the test period by the proposed basic charges in this case.*

13 Staff's response – Staff determines the amount of the basic charge revenues
14 that will be collected from customers through the monthly basic charges by
15 multiplying the number of customer bills in the 2015 rate year period by the Staff's
16 proposed basic charges in this case.

17 *Step 5 – Avista calculates the Decoupled Revenue by subtracting the fixed*
18 *charge revenue from the delivery & power plant revenue. These are the dollars*
19 *which determine the revenue per customer.*

20 Staff's response – Staff's calculation also deducts basic charge revenue from
21 delivery & power plant revenue to determine our Decoupled Revenue.²⁹

22

²⁷ Schooley, Exhibit No. ____ (TES-2) at 1:4-6.

²⁸ Ehrbar, Exhibit No. ____ (PDE-9) at 1:7.

²⁹ Schooley, Exhibit No. ____ (TES-2) at 1:7.

1 **Q. What is the next step in the process?**

2 A. The next step is to determine the Decoupled Revenue Per Customer. Again, I
3 describe Avista's method,³⁰ then Staff's.

4 *Avista RPC*—Avista groups customers into three rate groups, Residential,
5 Non-Residential, and Extra Large non-residential: **Residential**: Schedule 1; **Non-**
6 **Residential**: Schedules 11 and 12 - General Service, Schedules 21 and 22 - Large
7 General Service, and Schedules 31 and 32 - Pumping; and **Extra Large Non-**
8 **Residential** - Schedule 25.

9 Avista divides the combined annual revenues of each rate group by the
10 combined test-year customers of each rate group to derive the annual Revenue Per
11 Customer.³¹ Avista did not include Lighting schedules because these customers are
12 currently billed on a flat monthly rate.³²

13 Staff's Response – Staff groups customers as follows: Residential, Non-
14 Residential, and Other. **Residential** is residential; and **Non-Residential** is the same
15 as Avista's grouping of the same titles; General Service, Large General Service and
16 Pumping schedules. Staff's **Other** category contains Extra-Large General Service –
17 Schedule 25, Staff's proposed Ultra-large General Service, and Lighting.

18 Staff excludes this "Other" category from full decoupling because Staff
19 proposes a straight/fixed variable rate structure that will capture this group's fixed
20 costs through fixed charges, which makes decoupling a moot point.

³⁰ Ehrbar Direct, Exhibit No. ____ (PDE-1T) at 56:1-59:12 and in Exhibit No. ____ (PDE-9) at 2.

³¹ Ehrbar, Exhibit No. ____ (PDE-9) at 2.

³² Ehrbar Direct, Exhibit No. ____ (PDE-1T) at 69:12-15.

1 Staff divides the combined 2015 revenues of each of the two decoupling
2 groups (Residential and Non-Residential) by their respective 2015 customers to
3 derive the annual RPC.³³
4

5 **Q. What is the final step in the Revenue Per Customer calculation?**

6 A. The final step is to determine the monthly revenue per customer. Again, I describe
7 Avista's method, then Staff's.

8 *Avista Revenue Per Customer*—Avista determines the percentage of kWh
9 sales for each month per rate group by dividing each month's test year sales by the
10 annual weather-normalized test-year kWh sales for each rate group. This monthly
11 percentage is multiplied by the annual Decoupled Revenue Per Customer to derive
12 the monthly Revenue Per Customer for each month.³⁴

13 Staff's Response – Staff determines the percentage of kWh sales for the two
14 decoupling groups by dividing each month's 2015 sales by the annual weather-
15 normalized 2015 kWh sales. This monthly percentage is multiplied by the 2015
16 Decoupled Revenue Per Customer to derive the monthly Revenue Per Customer for
17 each month.³⁵
18

19 **Q. Please compare Staff's Revenue Per Customer shown on page 2 of your Exhibit**
20 **No. ___ (TES-2) and the Company's Revenue Per Customer, shown on page 2 of**
21 **Mr. Ehrbar's Exhibit No. ___ (PDE-9).**

³³ Schooley, Exhibit No. ___ (TES-2) at 2:3.

³⁴ Ehrbar, Exhibit No. ___ (PDE-9) at 3.

³⁵ Schooley, Exhibit No. ___ (TES-2) at 3.

1 A. Despite the fact that Staff and Avista propose similar decoupling methods, and
2 despite Staff's lower revenue requirement, Staff's Revenue Per Customer is much
3 higher than Avista's: \$648.07 per year (Staff) compared to \$471.32 per year
4 (Avista).

5 This difference is caused by the fact that Staff proposes a lower basic charge
6 than Avista,³⁶ and Staff proposes a lower Retail Revenue Credit than Avista.³⁷
7 Taken together, these differences increase Staff's level of decoupled revenues
8 relative to Avista's figure.

9 Also, as I described earlier, Staff uses the 2015 rate year revenues and 2015
10 customer base, while Avista uses the 2013 revenues and customers. While the
11 revenues of 2015 will be higher than the 2013 test year, the number of customers
12 grew at a greater pace. If all else were equal, this would reduce Staff's Revenue Per
13 Customer compared to the Company's because Staff uses a higher number of
14 customers in the denominator. As it is, the higher Decoupled Revenues more than
15 compensate for the increased customers.

16

17 **Q. Please explain the Retail Revenue Credit, and why it causes Staff's Revenue Per**
18 **Customer figure to be larger than Avista's.**

19 A. The Retail Revenue Credit is found in the Energy Recovery Mechanism (ERM). Its
20 function is to correct the ERM balances for increased or decreased kWh volumes
21 compared to the projected kWh volumes.

³⁶ Staff is at \$8.50 per customer per month versus Avista's \$15.

³⁷ Staff's is 2.104 cents per kWh; Avista's is 3.518 cents per kWh.

1 The Retail Revenue Credit in the current ERM represents the return on and
2 return of production plant costs.³⁸ Oddly, Avista claims the Retail Revenue Credit
3 represents Power Supply Related Revenues which Avista then deducts from the total
4 revenues.³⁹

5 However, because the Retail Revenue Credit measures fixed production costs
6 (*i.e.*, the cost of power plants), and Avista subtracts fixed costs which may be fairly
7 recovered in the decoupling mechanism, it understates the level of decoupled
8 revenues. Staff revises the Retail Revenue Credit to reflect only the variable power
9 costs in the ERM.⁴⁰ The variable power costs must be removed from general
10 revenues to determine the delivery revenues.⁴¹ Staff's method will allow Avista to
11 capture all fixed costs through the decoupling mechanism.

12
13 **Q. In Exhibit No. ___ (PDE-9) at 4, Mr. Ehrbar shows a net cumulative deferral**
14 **for the residential group of plus \$270,216⁴² in his illustrative example. Your**
15 **similar exhibit⁴³ shows a rebate of almost \$14 million. What explains this large**
16 **difference?**

17 A. The primary reason for this difference is found on page 4, line 4 of the respective
18 exhibits. In Avista's exhibit, the cash revenues received on line 4 may represent
19 Avista's assumptions of receipts, given its filed revenue increase. However, Staff's

³⁸ Knox, Exhibit No. ___ (TLK-2).

³⁹ Ehrbar Direct, Exhibit No. ___ (PDE-1T) at 54:19-21.

⁴⁰ For a full explanation, *see* Staff witness Jason Ball's testimony, Exhibit No. ___ (JLB-1T) at 8:8 – 12:4.

⁴¹ The Retail Revenue Credit, reflecting only net variable power cost, is still necessary in the ERM to cure any double over-recovery or double under-recovery of power costs.

⁴² Ehrbar, Exhibit No. ___ (PDE-9) at 4:12.

⁴³ Schooley, Exhibit No. ___ (TES-2) at 4:12.

1 revenue requirement is about seven percent lower than Avista's.⁴⁴ If the cash
2 receipts are reduced by seven percent, the cumulative deferral is much smaller:
3 +\$1,881,473.

4
5 **Q. Mr. Ehrbar shows a net cumulative deferral for the residential group of plus**
6 **\$270,216⁴⁵ in his illustrative example. Have you prepared an exhibit that shows**
7 **how Avista's figure changes if Staff's 2015 data is used?**

8 A. Yes. My Exhibit No. ____ (TES-4) shows such an analysis for the residential group.
9 I revised page 1 of Mr. Ehrbar's Exhibit No. ____ (PDE-9) using Staff's 2015 data⁴⁶
10 as follows:

11 Line 2 is updated to Avista's rate request level in 2015;

12 Line 4 is updated to Avista's 2015 loads; and

13 Line 8 reflects the 2015 customer counts.

14 With these revisions, the result is quite different: The residential deferral becomes a
15 rebate of \$5.7 million.

16 The magnitude of this difference indicates how overstated Avista's
17 assumptions are for the monthly revenue stream in Mr. Ehrbar's Exhibit No. ____
18 (PDE-9) at 4:4.

19
20 **Q. What is the importance of this the data presented in your Exhibit Nos. ____**
21 **(TES-4) and (TES-5)?**

⁴⁴ A calculation of Avista's gross cents per kWh is about 9.14 cents per kWh. Staff's is 8.5 cents per kWh, or 7.5% less.

⁴⁵ Ehrbar, Exhibit No. ____ (PDE-9) at 4:12.

⁴⁶ The labels on the lines are not revised to Staff's suggested terms in order to maintain the integrity of this page with Avista's filing.

1 A. The importance of this data is to see if the utility is achieving its established revenue
2 requirement. In my Exhibit No. ____ (TES-5), I present a comparison of Mr.
3 Ehrbar's Exhibit No. ____ (PDE-9) as filed with the Staff's revised version of Exhibit
4 No. ____ (PDE-9).

5 Columns (c) of my Exhibit No. ____ (TES-5) is the annual data from Mr.
6 Ehrbar's Exhibit No. ____ (PDE-9), page 4 (the sum of the 12 months presented) and
7 compares this to the same lines of annual data from Exhibit No. ____ (PDE-9), pages
8 1 and 2, as shown in column (d). The result in column (e) is a variance analysis of
9 the changes between expected revenues and actuals (as illustrated).

10 Columns (f) and (g) are the same look from the revised Exhibit Nos. ____
11 (PDE-9) contained in my Exhibit No. ____ (TES-4). Column (f) is the annual data
12 from Exhibit No. ____ (PDE-4) as revised, page 4 (the sum of the 12 months
13 presented) compared to the same lines of annual data from Exhibit No. ____ (PDE-9)
14 as revised, pages 1 and 2, in column (g).

15 The bottom line result in column (h) is a variance analysis of the changes
16 from that expected in setting the revised rates and the actuals (as illustrated).

17 This analysis indicates that, based on Avista's filed case, and using the
18 assumptions in the Company's example, the Company will receive over \$6 million
19 more revenue from residential customers⁴⁷ than what it expected in its filing. One
20 cause is the Company's use of the June 2013 test year customers as the divisor in
21 determining the Decoupling RPC. The growth in customers (as illustrated) is
22 substantial, and this allows the Company to earn an additional \$2.36 million⁴⁸ over

⁴⁷ Schooley, Exhibit No. ____ (TES-5) at 1:10, column (e).

⁴⁸ Schooley, Exhibit No. ____ (TES-5) at 1:3, column (e).

1 its rate case level. An additional \$900,000 in fixed charges plus over \$3 Million in
2 power supply revenues completes the boost to Avista's revenues.

3 Similarly, for the Non-Residential group, electric revenues are more than
4 \$5.5 million over the expected revenues in its filed case.

5
6 **Q. How does this compare to Staff's full decoupling analysis, which bases the**
7 **decoupling Revenue Per Customer on 2015 projected customers?**

8 A. The actual results in my Exhibit No. ____ (TES-5), columns (f) through (h) are much
9 closer to expectations. Using 2015 customer counts and the 2015 expected
10 decoupling revenues reduces the decoupling revenues per customer, but the variance
11 now will be simply the difference between the projection and the actual. The growth
12 in customers, revenues, and costs are now in line. The total revenue achieved is now
13 about \$156,000 more than expected (line 10, column (h)). The variance for non-
14 residential customers is a bit greater because the (illustrated) number of customers is
15 less than expected. It stands to reason that revenues will be lower as well.

16
17 **Q. Will a primary goal of decoupling be achieved under Staff's decoupling**
18 **mechanisms as proposed; in other words, does Avista have a reasonable**
19 **opportunity to achieve the revenues determined to be sufficient for the rate**
20 **year?**

21 A. Yes. It is important to note that in both scenarios, the expected total revenues or the
22 sum of the decoupled revenues, the basic charges and the power supply revenues are
23 \$215 million for the residential group and \$212 million for the non-residential

1 group.⁴⁹ By basing the metrics on 2015 data, the expected revenues are much more
2 closely correlated. Avista's method offers it the potential to receive revenues greater
3 than what are deemed sufficient. This contradicts the purpose of a decoupling
4 mechanism.

5
6 **V. CONCLUSION**

7
8 **Q. What are your conclusions for attrition-based rates and decoupling?**

9 A. The two concepts work well together. Rates, or prices, for the 2015 rate year should
10 collect the costs of 2015. Decoupling based on the 2015 customers and loads will
11 offer the best opportunity for the Company to achieve the revenues expected in 2015.

12 Staff's attrition study uses long-term trends appropriately to determine the
13 expected rate base and costs of the future year. Staff offers a balanced approach to
14 decoupling with a decrease to rate of return within the context of a full general rate
15 case.

16
17 **Q. Does this conclude your testimony?**

18 A. Yes.

19

⁴⁹ Schooley, Exhibit No. ____ (TES-4), columns (d) and (g).