

Exhibit No. ___T (DJR-5T)
Docket UE-120436, et al.
Witness: Deborah J. Reynolds

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)**

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

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

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

Respondent.

CROSS-ANSWERING TESTIMONY AND DIRECT TESTIMONY OF

Deborah J. Reynolds

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

***Re: The Decoupling Proposal of the NW Energy Coalition
And Low-income Rate Assistance Program Issues***

September 19, 2012

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Deborah J. Reynolds. My business address is the Richard Hemstad Building, 1300 S. Evergreen Park Dr. SW, Olympia, Washington 98504.

Q. Are you the same Deborah J. Reynolds whose testimony and exhibits from Dockets UE-110876 and UG-110877 are included in this docket?

A. Yes. That testimony is Exhibit No. ___ (DJR-1T) and those exhibits are Exhibit Nos. ___ (DJR-2) through ___ (DJR-4). I set forth my qualifications in that testimony, so I will not repeat them here.

II. PURPOSE AND SUMMARY

Q. What is the purpose of your cross-answering testimony?

A. The purpose of this testimony is to respond to the February 24, 2012, testimony filed by various parties that address the full electric decoupling proposal of the NW Energy Coalition (NVEC), as presented by its witness, Mr. Ralph Cavanagh. Specifically, I respond to the testimony of Mr. Patrick Ehrbar on behalf of Avista, Exhibit No. ___ (PDE-9T), Mr. David Dismukes on behalf of Public Counsel, Exhibit No. ___ (DED-1T), and Mr. Michael Deen on behalf of the Industrial Customers of Northwest Utilities, Exhibit No. ___ (MCD-1T).

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1 In addition, I explain how the Commission’s decision on the decoupling issue
2 in the recent rate case involving Puget Sound Energy (PSE) may apply to this case.

3

4 **Q. Did you respond to a decoupling proposal by NWEA in that recent PSE rate**
5 **case docket?**

6 A. Yes. I filed and defended testimony on this issue in that recent PSE rate case,
7 Dockets UE-111048 and UG-111049.

8

9 **Q. What is Staff’s recommendation on decoupling in this case?**

10 A. As Staff has already testified, the standards set forth in the Commission’s
11 Decoupling Policy Statement are proper policies and the Commission should apply
12 them in this case, or at least not lightly ignore them.¹ Staff continues to recommend
13 that if the Commission approves decoupling, it should require the following
14 conditions prior to implementing a decoupling mechanism:

- 15 • Require additional evidence by decoupling proponents quantifying the change in
16 the capital cost rates occasioned by the specific decoupling mechanism adopted
17 by the Commission, or the amount of equity in the ratemaking capital structure
18 appropriate under decoupling, or both.
- 19 • Adopt the Earnings Test as outlined in my Exhibit No. ____ (DJR-2), modifying
20 the Earnings Test dead band as appropriate.²

¹ 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”).

² My Exhibit No. ____ (DJR-2) at 12 includes an earnings test for discussion purposes that was essentially the same as that addressed by Mr. Cavanagh. It is also very similar to the earnings test in Avista’s gas decoupling mechanism, although Avista’s gas mechanism does not contemplate the 25 basis point dead band. I would

- 1 • Adopt the Conservation Test as outlined in my Exhibit No. ____ (DJR-2).³
- 2 • Require third party evaluation of conservation achievement, which will also
- 3 identify any incremental conservation.
- 4 • Require third party evaluation of comparable benefits for low-income customers.
- 5 • Require revisions to the Energy Recovery Mechanism (ERM).
- 6 • Exclude the effect of weather.
- 7

8 **Q. What is Staff’s primary objection to NWEC’s decoupling proposal?**

9 A. In this docket, both Staff and the Company have analyzed attrition for Avista. Ms.

10 Kathryn Breda is Staff’s witness on this issue. Typically, decoupling does not

11 address attrition, as Mr. Cavanagh has conceded in testimony he filed in the recent

12 PSE rate case.⁴ In fact, Avista opposes decoupling in part because it does not

13 address attrition.⁵ Staff’s attrition allowance takes into consideration revenue trends,

14 which can encompass lost revenues from all causes, including lost revenues due to

15 conservation.⁶

16 I recognize the Commission has stated that decoupling “was never intended

17 to supplant other tools that deal with demonstrated earnings attrition.”⁷ However,

18 there is a nexus between attrition and decoupling, because to the extent an attrition

clarify, however, that whatever dead band is chosen by the Commission, it should be based on a rate of return set in the general rate case that implements decoupling. In addition, the dead band should be carefully crafted to provide upside earnings only if the Company can demonstrate a connection between achieved efficiencies beyond those required by statute and its earnings at the high end of any range are determined to be fair.

³ Exhibit No. ____ (DJR-2), at 15, 16, and 28.

⁴ *Utilities and Transp. Comm’n v. Puget Sound Energy*, Dockets UE-111048 & UG-111049, Cavanagh, Exhibit No. ____ (RCC-1T) at 10, line 14.

⁵ Ehrbar, Exhibit No. ____ (PDE-9T) at 10, line 20.

⁶ *Utilities and Transp. Comm’n v. Puget Sound Energy*, Dockets UE-111048 & UG-111049, Elgin, Exhibit No. ____ (KLE-1T) at 79, lines 9-11.

⁷ *Utilities and Transp. Comm’n v. Puget Sound Energy, Inc.*, Dockets UE-111048 & UG-111049, Order 08 (May 7, 2012) at 167, Paragraph 455 (PSE Order).

1 analysis takes into account the impact of changes in load due to conservation, it will
2 address one of the impacts decoupling is intended to address. Therefore, should the
3 Commission approve a decoupling mechanism, it must take care to reconcile the two
4 (decoupling and attrition) if both tools are in effect.
5

6 **Q. Are there other reasons Staff objects to NWECC's decoupling proposal?**

7 A. Yes. The NWECC proposal fails to comply with the most significant elements of the
8 Decoupling Policy Statement, namely:

- 9 • It does not appropriately analyze the impact of conservation on Avista;
- 10 • It is not appropriately applied to all customer classes;
- 11 • It makes no reduction to cost of capital;
- 12 • It fails to condition revenue per customer recovery on achieving conservation
13 targets;
- 14 • It does not identify comparable conservation benefits for low-income customers;
- 15 • It does not describe the incremental conservation the Company should pursue
16 under decoupling; and
- 17 • It fails to net increased wholesale sales due to conservation in the true-up.

18

19 **III. THE COMMISSION'S RECENT PSE RATE ORDER**

20

21 **Q. Have you reviewed the Commission's discussion of decoupling in its recent rate**
22 **order involving PSE?**

23 A. Yes.

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Q. How did the Commission characterize its Decoupling Policy Statement in that PSE Order?

A. The Commission stated that it did not intend the Decoupling Policy Statement to be “immutable doctrine,” and the Commission remained open to considering proposals that varied from it.⁸

Q. Is that consistent with what you assumed in your earlier decoupling testimony, Exhibit No. ___ (DJR-1T)?

A. Yes. Staff understands the Decoupling Policy Statement is a flexible document, and a specific decoupling proposal can depart from a particular policy or policies and still be accepted by the Commission. However, it is reasonable for the Commission to expect parties proposing decoupling to address their proposal in light of that Decoupling Policy Statement.⁹

Q. Did NWECA address its decoupling proposal in light of the policies in the Commission’s Decoupling Policy Statement?

A. No. As I described in my earlier-filed decoupling testimony, Exhibit No. ___ (DJR-1T) at 5, line 15 to 6, line 4, NWECA’s witness Mr. Cavanagh failed to address several of the policies that the Commission directed a proponent of decoupling to address.

⁸ PSE Order at 167, n 617.
⁹ See Decoupling Policy Statement at 23, ¶ 36.

1 **Q. Did the Commission provide other guidance on decoupling in that PSE Order?**

2 A. Yes. In that Order, the Commission stated it would not approve a decoupling
3 mechanism for PSE because of PSE's "staunch opposition."¹⁰

4
5 **Q. Does that statement apply to Avista?**

6 A. Yes. While to date, Avista's opposition to decoupling is more subtle than PSE's,
7 like PSE, Avista also opposes decoupling.¹¹ A consistent result for Avista would be
8 for the Commission to deny NWECA's decoupling proposal in this case.

9

10 **IV. STAFF RESPONSES TO DECOUPLING TESTIMONY OF OTHER**
11 **PARTIES**
12

13 **Q. Before you respond to the other parties on decoupling, please generally describe**
14 **NWECA's decoupling proposal.**

15 A. NWECA proposes a full decoupling mechanism for Avista's electric operations.
16 Avista's revenues would be based upon a revenue-per-customer ("RPC") value for
17 all electric customers, except the 22 customers Avista serves under Schedule 25,
18 Extra Large General Service.¹²

19 The NWECA proposal would guarantee Avista would recover that RPC
20 through a deferred accounting and true-up process. The true-ups of actual revenue to
21 the RPC level would occur annually, subject to a three percent rate increase cap.

¹⁰ PSE Order at 166, ¶ 453.

¹¹ Ehrbar, Exhibit No. ___ (PDE-9T) at 1, line 18.

¹² Schedules 1 (Residential), 11/12 (General), 21/22 (Large General), 31/32 (Pumping), 41-49 (Street and Area Lighting).

1 Avista would defer any amount above the cap and recover it in later annual rate
2 changes.

3 NWEC proposes that the mechanism run for at least five years, subject to a
4 future evaluation by an independent contractor. Finally, the NWEC-proposed
5 mechanism requires annual reports by Avista describing its progress toward
6 conservation targets.¹³

7

8 **A. Staff Response on Customer Issues: Including All Customer Classes; Decoupling**
9 **Per-Customer Versus Per-Class; and Excluding New Customers**

10

11 **Q. Please briefly summarize the Commission's policies on customer-specific issues.**

12 A. The Commission's policy is that a full decoupling proposal should include all
13 customer classes, unless it would be lawful or consistent with the public interest to
14 do otherwise.¹⁴ In the Commission's recent PSE Order, the Commission concluded
15 that the revenue per customer mechanism should be per-class.¹⁵ The Commission
16 has further recognized that revenue associated with new customers is offset by the
17 costs to serve those customers, and that these revenues and costs should be in
18 reasonable balance if new customers are included in the mechanism.¹⁶

19

20 **Q. What does Avista say about these customer-specific issues?**

¹³ The Commission requires Avista to file similar reports per Docket UE-100176.

¹⁴ Decoupling Policy Statement at 18, Criterion 1, ¶ 28.

¹⁵ PSE Order at 164, n. 605.

¹⁶ Decoupling Policy Statement at ¶ 28, n. 44.

1 A. Avista would include all customer classes in a decoupling mechanism, except for
2 Street and Area Lighting Schedules 41 through 48.¹⁷ The calculations in
3 Mr. Ehrbar's Exhibit No. ____ (PDE-10) show cost per customer separately
4 calculated for each rate schedule, consistent with the Commission's guidance in the
5 PSE Order. Avista does not mention new customers.

6

7 **Q. Is it appropriate to exclude Street and Area Lighting from decoupling?**

8 A. Yes. As Mr. Ehrbar notes, Street and Area Lighting customers already are billed on
9 a flat monthly rate, so a decoupling mechanism would have no effect on them.

10

11 **Q. What does Public Counsel say about these customer specific issues?**

12 A. Like Avista, Public Counsel disagrees with NWEC's proposal to exclude Schedule
13 25 customers from a decoupling mechanism. Public Counsel testifies that because
14 these customers participate in conservation programs, it does not make sense to
15 exclude them.¹⁸ Staff agrees with this testimony.

16

17 In Mr. Dismukes' discussion of found margins from increases in the
18 customer base, i.e., new customers, Public Counsel implies that new customers
19 should be excluded from any mechanism.¹⁹ However, Mr. Dismukes provides no
20 evidence that revenues and costs are not in reasonable balance as the Decoupling
Policy Statement would require before removing new customers from a mechanism.

¹⁷ Ehrbar, Exhibit No. ____ (PDE-9T) at 24, lines 25-29, and Exhibit No. ____ (PDE-10).

¹⁸ Dismukes, Exhibit No. ____ (DED-1T) at 31, lines 1-7.

¹⁹ Id. at 31, line 8 through 32, line 6.

1 Lacking such evidence, Staff sees no reason to exclude new customer revenue from
2 the mechanism.

3

4 **Q. What does ICNU say about these customer-specific issues?**

5 A. ICNU agrees with NWEC that large industrial customers in Schedule 25 should be
6 excluded from decoupling mechanisms. ICNU notes that Avista's previously filed
7 comments on the Decoupling Policy Statement suggested excluding Schedule 25
8 customers.²⁰ ICNU alleges that a single customer dropping out of that rate schedule
9 would have dire effects on the remaining customers.²¹

10

11 **Q. What is Staff's response to ICNU on excluding Schedule 25 customers from
12 decoupling??**

13 A. First, ICNU's point is unrealistic because Schedule 25 has had a stable customer
14 base. Only four customers were added to Schedule 25 in the last 10 years, and none
15 have departed.²² Second, even if we assume a Schedule 25 customer leaves the
16 system and there is an adverse effect, Avista would respond by moving up the timing
17 of its next general rate case filing to address the problem. Also, ICNU's witness fails
18 to provide any evidence that would explain how excluding Schedule 25 customers
19 would not be an undue preference or discriminatory in favor of those customers.

20

²⁰ Deen, Exhibit No. ___ (MCD-1T) at 4, lines 8-13.

²¹ Id. at 5, lines 2-4.

²² Avista Response to Staff Data Request 4, Attachment A.

1 **Q. How does ICNU address the issue of decoupling per-customer versus**
2 **decoupling per-class, and how does ICNU relate this to the inclusion of new**
3 **customers?**

4 A. ICNU proposes an alternative decoupling mechanism that Mr. Deen refers to as
5 “rate-cap” decoupling.²³ ICNU’s witness interprets the Decoupling Policy Statement
6 to require evidence of a reasonable balance between new customer costs and benefits
7 before new customers would be included in a decoupling mechanism.²⁴ ICNU’s
8 proposed rate-cap decoupling would remove the off-setting revenues, but not the
9 costs, associated with new customers.

10

11 **Q. What is Staff’s response to ICNU on the new customer issue?**

12 A. As I mentioned above, Staff disagrees that a full decoupling mechanism should
13 ignore increases in the customer base. The portion of the Decoupling Policy
14 Statement cited by Mr. Deen merely recognizes the existence of offsetting factors in
15 the current environment.²⁵ As the Commission stated, “a properly constructed full
16 decoupling mechanism that is intended, between general rate cases, to balance out
17 both lost and found margin from any source can be a tool that benefits both the
18 company and its ratepayers.”²⁶

19 Similar to Mr. Dismukes above, Mr. Deen provides no evidence that
20 revenues and costs are not in reasonable balance as the Decoupling Policy Statement
21 would require before removing new customers from a mechanism. Lacking such

²³ Deen, Exhibit No. ____ (MCD-1T), at 7, lines 1-6, and 9, lines 10-17.

²⁴ Id. at 7, line 17.

²⁵ Decoupling Policy Statement at ¶ 11, n. 22 and ¶ 28, n. 44.

²⁶ Id. at 16, line 27.

1 evidence, Staff sees no reason to exclude new customer revenue from the
2 mechanism.

3 While Staff agrees that decoupling should be done on a per-class basis, this
4 could be done as described in Mr. Ehrbar's testimony noted above, not as described
5 in Mr. Deen's Exhibit No. ____ (MCD-1T) at 7, lines 1-6.

6
7 **B. The Impact of Decoupling on the Rate of Return**

8
9 **Q. Please briefly describe the Commission's policy on the impact of decoupling on**
10 **rate of return.**

11 A. The Commission recognizes that decoupling can reduce risk to investors and that a
12 decoupling proposal needs to evaluate this impact on cost of capital.²⁷

13
14 **Q. If the Commission approves a decoupling mechanism, how could the**
15 **Commission implement this policy?**

16 A. The Commission could reduce the overall rate of return by adopting a return on
17 equity in the lower end of a reasonable range, or by reducing the amount of equity in
18 the Company's ratemaking capital structure, or both.

19
20 **Q. What does Staff propose?**

²⁷ Id. at 16-17, ¶¶ 27-28.

1 A. As Mr. Elgin testifies, the Commission should recognize the risk reduction impacts
2 of a decoupling mechanism by reducing the amount of equity in the capital
3 structure.²⁸

4
5 **Q. What does Avista say about the impact of a decoupling mechanism on the rate
6 of return?**

7 A. Avista says a decoupling mechanism should have no impact on the rate of return.²⁹
8 Avista suggests that decoupling is simply a patch applied to the ratemaking process
9 to restore the revenue related to energy efficiency.³⁰

10

11 **Q. What is Staff's response?**

12 A. The Company is wrong because it disregards the fact that the full decoupling
13 mechanism under discussion in this docket restores far more than just energy
14 efficiency. As Mr. Ehrbar remarks, "such a mechanism should factor in all changes
15 in use per customer, including changes due to weather."³¹

16 After making this claim, the Company continues to use the energy savings
17 estimates to explicitly incorporate the impact of energy efficiency on future load,
18 even though the "energy savings estimates are really intended to be used for
19 [conservation program] forecasting and as a guide for making a decision about which
20 plant to purchase, where plant A is conservation and plant B is a gas plant."³²

21 Notably, Avista also fails to recommend either a specific capital structure or specific

²⁸ Elgin, Exhibit No. ___ (KLE-2T), at 3, lines 1-11.

²⁹ Ehrbar, Exhibit No. ___ (PDE-9T) at 9, line 9 to 10, line 10, and 29, lines 17-23.

³⁰ Id. at 9, lines 13-15.

³¹ Ehrbar, Exhibit No. ___ (PDE-9T) at 1, line 20.

³² PSE Order at 171, ¶ 465.

1 capital cost rates under decoupling, even though the Company is recommending
2 capturing the effects of weather, which is one of the main components of risk.

3 In sum, the testimony Avista offers on this issue is insufficient to support the
4 Company's conclusion that rate of return is unaffected by a decoupling mechanism.

5

6 **Q. What do Public Counsel and ICNU say about the impact of a decoupling
7 mechanism on the rate of return?**

8 A. Both Public Counsel and ICNU strongly agree with the Commission policy and urge
9 the Commission to apply it. Public Counsel's witness Mr. Dismukes testifies that
10 decoupling has an effect on the allowed rate of return, and that effect should be
11 incorporated into the mechanism.³³ He provides several examples of regulatory
12 commissions that have reduced the rate of return when implementing decoupling.³⁴
13 While he makes no specific calculation of that effect, he encourages consideration of
14 these issues in the context of a general rate case.³⁵

15 ICNU witness Mr. Deen suggests the Commission use the low end of the
16 return on equity range that the Commission otherwise finds appropriate.³⁶ He also
17 cites several regulatory commission cases in which the commission adjusted rate of
18 return when adopting decoupling.³⁷ Mr. Deen further recommends that the Earnings
19 Test be capped at the rate of return last determined by the Commission, rather than
20 25 basis points above that rate of return.³⁸

³³ Dismukes, Exhibit No. ___ (DED-1T) at 21, lines 18-22.

³⁴ Exhibit No. ___ (DED-6).

³⁵ Dismukes, Exhibit No. ___ (DED-1T) at 25, lines 6-7.

³⁶ Deen, Exhibit No. ___ (MCD-1T) at 11, lines 18-21.

³⁷ Id at 13, lines 2-6.

³⁸ Id. at 10, lines 12-13.

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Q. What is Staff's response?

A. Staff agrees with ICNU and Public Counsel that the Commission should apply its policy on the rate of return impacts of decoupling. Staff proposes the Commission lower the equity ratio as a means to address the issue.³⁹

However, Staff disagrees with ICNU that the Earnings Test should be capped at the rate of return last approved by the Commission. Mr. Deen offers no justification for this proposal. As I explained in my earlier filed exhibit on decoupling, the Commission should use an Earnings Test based on the low end of the range with a 25 basis point dead band above the previously authorized rate of return to retain the Company's incentive to manage costs appropriately.⁴⁰

C. Conditioning Recovery of Deferred Amounts on Conservation Achievement

Q. Please briefly describe the Commission's policy on conditioning decoupling deferral recovery on achieving conservation targets.

A. The Commission's policy is that "[r]evenue recovery by the company under the mechanism will be conditioned upon a utility's level of achievement with respect to its conservation target."⁴¹

³⁹ Elgin, Exhibit No. ___ (KLE-2T) at 3, lines 1-11.
⁴⁰ Exhibit No. ___ (DJR-2) at 12-14.
⁴¹ Decoupling Policy Statement at 17, ¶ 28.

1 **Q. What does Avista say about this policy?**

2 A. Avista says the Commission should not apply this policy because the penalties in the
3 Energy Independence Act (EIA) are sufficient to encourage the Company to invest in
4 conservation.⁴² It is interesting that Avista's witness, Mr. Ehrbar, makes no mention
5 of the incentive inherent in the EIA penalty to set the targets as low as possible. In
6 the presence of decoupling, this would need to be further explored.

7
8 **Q. Should the Commission link conservation achievement to revenue recovery**
9 **under decoupling?**

10 A. Yes. The Commission's linkage of conservation achievement to full decoupling is
11 intended to transform the removal of a disincentive to invest in conservation into an
12 incentive *to invest* in conservation.⁴³ Staff's proposed Conservation Test described
13 in my Exhibit No. ___ (DJR-2) effectively implements that policy. I am confident
14 that an incentive *to invest* in conservation will be more effective in increasing
15 conservation than merely removing a disincentive.

16
17 **Q. What do Public Counsel and ICNU say about conditioning decoupling deferrals**
18 **recovery on Avista achieving conservation targets?**

19 A. Public Counsel and ICNU both support this condition.⁴⁴

20

⁴² Ehrbar, Exhibit No. ___ (PDE-9T) at 30, lines 26-31.

⁴³ Exhibit No. ___ (DJR-2) at 16.

⁴⁴ Dismukes, Exhibit No. ___ (DED-1T) at 10, lines 4-17; Deen, Exhibit No. ___ (MCD-1T) at 10, lines 1-6.

1 **Q. What is Staff's response?**

2 A. Staff agrees. In exchange for customers guaranteeing Avista will receive a specific
3 level of revenue recovery, it is fair to condition the Company's recovery of those
4 guaranteed revenues by proving it did what decoupling promises to do; remove
5 barriers to acquiring all cost-effective conservation.

6

7 **D. Providing Comparable Conservation Benefits to Low-Income Customers**

8

9 **Q. Please briefly describe the Commission's policy on low-income and decoupling.**

10 A. The Commission's policy is that a decoupling proposal should demonstrate that the
11 utility's low-income conservation programs provide benefits to low-income
12 customers that are roughly comparable to other ratepayers, and if not, that the low-
13 income programs aim to achieve conservation levels comparable to other
14 ratepayers.⁴⁵

15

16 **Q. What does Avista say about this low-income policy?**

17 A. Avista states that Avista's conservation programs provide benefits to low-income
18 ratepayers that are roughly comparable to other ratepayers. Mr. Ehrbar explains that
19 customers participating in the Company's standard (i.e., not low-income)
20 conservation programs receive funding of approximately 57 percent for the whole
21 cost of the energy efficiency measure, which is much less than the 100 percent
22 received by low-income customers. He also says that the Company's budget for

⁴⁵ Decoupling Policy Statement at 19, Criterion 4, ¶ 28.

1 low-income conservation is 25 percent of the residential conservation program
2 budget, which is similar to the percentage of low-income customers in Avista's
3 service territory.⁴⁶

4
5 **Q. What is Staff's response?**

6 A. Staff finds these analyses helpful. However, for the Commission's policy to be fully
7 implemented, it will be necessary for the Company to provide ongoing proof that
8 low-income customers continue to enjoy roughly equivalent benefits. Staff believes
9 that a third-party evaluation, combined with Avista's additional evidence will
10 sufficiently ensure that low-income customers appropriately benefit from
11 conservation programs.

12
13 **Q. What do Public Counsel and ICNU say about conservation programs for low-**
14 **income customers?**

15 A. Neither Public Counsel nor ICNU address the merits of the issue, though Public
16 Counsel calls attention to NWECC's failure to address low-income customer issues.⁴⁷

17
18 **E. Describing Incremental Conservation**

19
20 **Q. What is the Commission's policy on describing the incremental conservation the**
21 **utility would achieve via decoupling?**

⁴⁶ Ehrbar, Exhibit No. ____ (PDE-9T) at 26, lines 10-14 and 27, lines 8-16.

⁴⁷ Dismukes, Exhibit No. ____ (DED-1T) at 34, lines 6-11.

1 A. The Commission's policy is that a decoupling proposal be supported by "[e]vidence
2 describing the incremental conservation the company intends to pursue in
3 conjunction with the mechanism."⁴⁸ As described in the Decoupling Policy
4 Statement's discussion of direct conservation incentives, this could include a plan to
5 present direct evidence at the end of the target period that identifies the actions the
6 company took to exceed the target that were not part of its conservation program at
7 the time the Commission set the biennial conservation target.⁴⁹ Under this approach,
8 the company should plan to show why these actions were not included in its initial
9 forecast of achievable energy efficiency for the target period. The proposal should
10 also separately identify plans to increase participation in existing measures versus
11 implementing new measures.

12
13 **Q. Does the Commission require evidence that the incremental conservation results**
14 **from decoupling?**

15 A. No. The Decoupling Policy Statement discusses incremental conservation in the
16 context of the EIA target. This suggests that the Commission is looking for the
17 conservation under decoupling that is "incremental to the target."

18
19 **Q. Does the Commission require evidence of the incremental conservation that the**
20 **company will pursue?**

21 A. Yes. The Decoupling Policy Statement clearly requires evidence of the conservation
22 the company will pursue that is incremental to the target. This evidence is part of the

⁴⁸ Decoupling Policy Statement at 19, Criterion 3, ¶ 28.

⁴⁹ Id. at 21, ¶ 33.

1 target-setting process. The conservation potential assessment provided by the
2 company in the target-setting process should thoroughly address this issue.

3

4 **Q. What else does the Commission require?**

5 A. The Decoupling Policy Statement combines discussion of evidence that would be
6 included in a company's conservation plan (forward-looking) with the evidence that
7 would be included in a company's conservation report (backward-looking).⁵⁰ It is
8 reasonable to conclude that the Commission's Decoupling Policy Statement intended
9 to address both forward- and backward-looking aspects of incremental conservation,
10 as described in the Commission's target-setting orders under the EIA.⁵¹

11

12 **Q. What does Avista say about this policy?**

13 A. Avista says the EIA already requires Avista to pursue all cost-effective conservation,
14 and until there is a mechanism that addresses the historical test year, such as an
15 attrition allowance, the Commission should not require Avista to pursue any
16 additional conservation.⁵²

17

⁵⁰ Id. at 21, Element 2, ¶ 33 and at 22, Element 3, ¶ 33.

⁵¹ *Pac. Power & Light Co.*, Docket UE-111880, Order 01 Approving Pacific Power & Light Company's 2012-2021 Achievable Conservation Potential and 2012-2013 Conservation Target Subject to Conditions (April 26, 2012); *Puget Sound Energy*, Docket UE-111881, Order 01 Approving Puget Sound Energy's 2012-2021 Achievable Conservation Potential and 2012-2013 Conservation Target Subject to Conditions (June 14, 2012); *Avista Corporation*, Docket UE-111882, Order 01 Approving Avista Corporation's 2012-2021 Achievable Conservation Potential and 2012-2013 Conservation Target Subject to Conditions (February 10, 2012).

⁵² Ehrbar, Exhibit No. ____ (PDE-9T) at 26, lines 1-6.

1 **Q. What is Staff's response?**

2 A. Staff is not convinced by Avista's argument. The incremental conservation that is
3 available for the Company to pursue is already identified in the conservation
4 potential assessment as part of the target-setting process. The Conservation Test
5 outlined in my earlier-filed Exhibit No. ____ (DJR-2), at 16, is a reasonable approach
6 to capturing incremental conservation that has been pursued, and it creates an
7 opportunity for the Company to achieve additional benefits from conservation
8 investment.

9

10 **Q. What do Public Counsel and ICNU say about this issue?**

11 A. Public Counsel's witness Mr. Dismukes correctly recognizes NWEC's failure to
12 discuss the Commission's incremental conservation policy.⁵³ More significantly,
13 both Public Counsel and ICNU argue there is no incremental conservation to be
14 achieved because of the EIA requirement that Avista pursue all cost-effective,
15 reliable conservation.⁵⁴

16

17 **Q. What is your response to Public Counsel's and ICNU's argument?**

18 A. Staff does not agree. In setting a target for conservation, the timing of the
19 conservation is an important factor. Therefore, the Company could acquire cost-
20 effective incremental conservation over and above its target by acquiring

⁵³ Dismukes, Exhibit No. ____ (DED-1T) at 34, lines 1-4.

⁵⁴ Id. at 6, line 12; Deen, Exhibit No. ____ (MCD-1T) at 3, line 21.

1 conservation earlier in time than the Company otherwise has planned, or by taking
2 advantage of conservation opportunities that are discovered after the targets are set.⁵⁵

3 This is supported by the Decoupling Policy Statement's discussion of
4 conservation incentive mechanisms.⁵⁶ In addition, the Company's current
5 conservation targets have been set based on what is now a three-year-old analysis by
6 the Northwest Power and Conservation Council. New conservation technologies
7 continually emerge, and provide additional opportunities to acquire cost-effective
8 conservation.

9

10 **F. Accounting for the Net Benefits of Off-System Sales or Costs Avoided**
11 **Due to the Utility's Conservation Efforts Under Decoupling**
12

13 **Q. Please briefly describe the Commission's policy on off-system sales of electricity**
14 **or avoided costs attributable to conservation efforts due to decoupling.**

15 A. The Commission's policy is that a decoupling proposal must describe how the off-
16 system sales and avoided cost benefits that result from decoupling would be
17 determined and netted against the decoupling deferral true-up.⁵⁷

18

19 **Q. What does Avista say about this issue?**

20 A. Avista agrees with NVEC that no further action is necessary because Avista's
21 Energy Recovery Mechanism (ERM) is "designed to transfer to customers any

⁵⁵ See my Exhibit No. ___ (DJR-2) at 18.

⁵⁶ Decoupling Policy Statement at ¶ 33.

⁵⁷ Id. at 17, Element 4, ¶ 28 and at n.45.

1 margin on wholesale transactions in excess of the company's generation and
2 transmission costs."⁵⁸

3

4 **Q. Is Avista correct in this description of the ERM?**

5 A. No. Like NWECA, Avista ignores the existence of the ERM dead bands and sharing
6 bands. These bands are in place to limit rate volatility, but, combined with the ERM
7 10 percent trigger, they have the added effect of limiting the transfer of margin on
8 wholesale transactions until those cumulative margins are greater than \$45 million.⁵⁹

9 I discuss this issue in my earlier filed decoupling testimony, Exhibit No. ____
10 (DJR-1T), at 19, lines 8-12. I conclude that as long as there are dead bands or
11 sharing bands in the ERM, ratepayers will not receive the full value of the off-system
12 sales benefits and related avoided cost benefits due to decoupling. While a specific
13 mechanism could be developed to provide ratepayers these benefits, the ERM simply
14 is not such a mechanism.

15

16 **Q. Does Avista also discuss the retail revenue credit as an issue for decoupling?**

17 A. Yes. Mr. Ehrbar discusses the retail revenue credit in his Exhibit No. ____ (PDE-9T),
18 at 32, lines 11-18. He notes that it is important that any decoupling mechanism be in
19 harmony with the ERM and particularly the retail revenue credit, which is part of the
20 ERM. According to Avista, if the Commission approved decoupling, Avista would
21 need to establish individual retail revenue credits by rate schedule in the ERM.

22

⁵⁸ Ehrbar, Exhibit No. ____ (PDE-9T), at 31, line 19 to 32, line 18.

⁵⁹ Buckley, Exhibit No. ____ (APB-CT1,) at 21.

1 **Q. What is Staff's response?**

2 A. Avista's proposal is accurate as far as it goes, but it would significantly complicate
3 the ERM, which is not designed to address variations in power supply costs by rate
4 schedule. Staff witness Mr. Buckley explains that the ERM is functioning as
5 intended, and Staff is recommending the Commission accept certain changes in the
6 calculation of the retail revenue credit as proposed by Avista witness Mr. Johnson.⁶⁰
7 Staff believes the combination of the revised ERM and an attrition allowance
8 appropriately addresses Avista's revenue concerns.

9
10 **Q. What does Public Counsel say about the interaction between the ERM and**
11 **decoupling?**

12 A. Public Counsel agrees ratepayers should get the benefits of incremental off-system
13 sales, and recognizes NWECA's failure to adequately address off-system sales in its
14 proposed decoupling mechanism.⁶¹ Public Counsel also notes that Avista's
15 previously-sponsored (but not accepted) mechanism called the EELA (Energy
16 Efficiency Load Adjustment) included a base revenue credit to customers for found
17 margins from off-system sales.⁶² Mr. Dismukes also calculates found margin from
18 off-system sales on pages 15 to 17 of Exhibit No. ___ (DED-1T).

19

⁶⁰ Buckley, Exhibit No. ___ (APB-1CT), at 19-21.

⁶¹ Dismukes, Exhibit No. ___ (DED-1T), at 32, line 7 to 33, line 5.

⁶² Id. at 33, lines 10-12.

1 **Q. What is Staff's response?**

2 A. Staff agrees it would be an error for the Commission to accept the NWECC
3 decoupling proposal without considering the impact on power costs. The ERM does
4 not do this. For example, a fairly aggressive conservation achievement level, of 1%
5 of retail sales, would not be enough to even exceed the dead band of the ERM.

6 If the Commission wishes to move ahead with decoupling at this time, it
7 would be necessary to address the changes in power costs that occur when loads are
8 lower, and that offset the lost retail revenue. The simplest way to do this is to use the
9 per-kWh cost found in the ERM, which currently is about \$.033/kWh, when
10 computing the decoupling deferral amount.⁶³

11

12 **Q. What does ICNU say about the interaction between the ERM and decoupling?**

13 A. ICNU does not address this issue.

14

15 **V. OTHER ISSUES**

16

17 **Q. Does the Commission approve the use of conservation savings in the way Avista
18 uses them in Mr. Ehrbar's Chart 2, Exhibit No. ___ (PDE-9T) at 6, lines 6-14?**

19 A. No. Mr. Ehrbar simply adds the conservation savings estimates to the weather-
20 normalized use-per-customer. This is not the same as the actual effect conservation
21 has on load in a particular year. In the Commission's recent PSE Order, the
22 Commission said: "No matter how well-suited the engineering estimates of savings

⁶³ Exhibit No. ___ (WGJ-5), Retail Revenue Credit = \$33.29 per MWh; also, see my Exhibit No. ___ (DJR-2), at 29, line 13, column c.

1 may be for their intended purposes, we do not find them suitable for the purpose of
2 determining rates.”⁶⁴ Although the Commission made that statement in the context
3 of denying PSE’s Conservation Savings Adjustment, that statement applies here as
4 well.

5
6 **Q. Do you agree with Public Counsel’s discussion about NWECE’s proposal to**
7 **include the effects of weather in the decoupling mechanism?**

8 A. Yes, in part. Mr. Dismukes accurately describes how including the impacts of
9 weather shifts this risk to the customer.⁶⁵

10 However, Mr. Dismukes goes on to suggest NWECE’s proposed decoupling
11 mechanism would adjust for weather on a monthly basis,⁶⁶ but NWECE is proposing
12 an annual adjustment that incorporates weather effects.

13 Notwithstanding these arguments, Staff believes full decoupling should
14 exclude the effects of weather. Weather variability is one of the risks that is
15 appropriately shared by the status quo, i.e., existing weather normalization
16 adjustments and volumetric rates.

17
18 **Q. ICNU recommends that the Commission review the decoupling program after**
19 **12 months, and at least every two years thereafter. ICNU quotes from your**
20 **Exhibit No. ___ (DJR-2) at 14-15 regarding “continuing Commission scrutiny”**

⁶⁴ PSE Order at 175, ¶ 473.

⁶⁵ Exhibit No. ___ (DED-1T), at 26, line 13, through 27, line 2.

⁶⁶ Id. at 27, line 12.

1 of a decoupling mechanism to support its recommendation.⁶⁷ What is Staff's
2 response?

3 A. A two-year review cycle is not necessary. In the testimony cited by ICNU, I also
4 referred to a requirement that the utility file a rate case within four years of the start
5 of a decoupling mechanism.⁶⁸ I contemplated that rate case would be the docket for
6 Commission review of the mechanism. Regulatory certainty is an important aspect
7 of a decoupling program and contributes to ensuring that the cost of capital benefits
8 of decoupling continue to be reflected in rates. In fact, Moody's Investor's Service
9 uses the permanency of a decoupling mechanism as one of the characteristics it
10 evaluates in determining the credit support offered by a decoupling mechanism.⁶⁹
11 Review on the shorter schedule recommended by ICNU would likely be detrimental
12 to that goal.

13
14 **VI. CONCLUSION ON DECOUPLING PROPOSAL**

15
16 **Q. Please summarize your position on the full decoupling proposal offered by**
17 **NWEC.**

18 A. The Commission should reject in its entirety NWEC's full decoupling proposal as
19 inconsistent with the several elements I have identified from the Commission's
20 Decoupling Policy Statement.

21

⁶⁷ Deen, Exhibit No. ____ (MCD-1T), at 15, lines 10-13.

⁶⁸ Exhibit No. ____ (DJR-2) at 14, last ¶.

⁶⁹ Moody's Investor's Service, Special Comment: Decoupling and 21st Century Rate Making, at 6 and 7 (November 4, 2011).

1 Q. Does this conclude your testimony on decoupling?

2 A. Yes.

3

4 VII. LOW-INCOME RATE ASSISTANCE PROGRAM ISSUES

5

6 A. Introduction

7

8 Q. What is the purpose of this section of your testimony?

9 A. I respond to the testimony of Avista witness Mr. Kopczynski on low-income rate
10 assistance funding.

11

12 Q. What is Staff's recommendation for Avista's low-income rate assistance
13 program tariff in this case?

14 A. For the purpose of this case, Staff recommends the Commission maintain the
15 existing funding level for the Company's Low-income Rate Assistance Program
16 (LIRAP), and implement a two-year certification for certain low-income customers,
17 to be determined in consultation with Community Action Agencies (CAAs).

18 Staff also recommends the Commission require Avista, in its next general
19 rate case, to submit a proposal for changing LIRAP from a grant program to a
20 discount rate program. I describe the specifics of this recommendation at the end of
21 my testimony.

22

1 **B. Description of LIRAP; Number of Customers Served; Nature of Grants**

2

3 **Q. Please generally describe Avista's LIRAP tariff.**

4 A. Avista's LIRAP tariff went into effect as a pilot program (without suspension) in
5 2001 in Dockets UE-010436 and UG-010437. Avista's program is modeled after the
6 federal Low-income Home Energy Assistance Program (LIHEAP). Avista collects
7 the funds for LIRAP from ratepayers through electric and natural gas surcharges on
8 Schedules 91 and 191, respectively, entitled the "Public Purposes Rider Adjustment
9 – Washington".

10 Avista's LIRAP aims to reduce the percentage of income that low-income
11 households spend on energy services, called the "energy burden".⁷⁰ This is
12 accomplished through bill assistance grants, low-income and senior outreach
13 programs, conservation education and support of community programs that increase
14 customers' ability to pay basic living costs. Grants are distributed to customers
15 whose eligibility is verified by CAAs.

16

17 **Q. Who is eligible to participate in LIRAP?**

18 A. Customers with an annual household income of 125 percent or less of the Federal
19 Poverty Level (FPL) are eligible for participation in LIRAP Heat, and customers
20 older than 60 years of age on fixed incomes at or below 200 percent FPL are eligible
21 for participation in LIRAP Senior Energy Outreach. LIRAP Share is available to

⁷⁰ Avista, Low-Income Rate Assistance Program Annual Summary Report (2011), at 2. ("LIRAP Report").

1 customers who are not eligible for or have exhausted all other energy assistance
2 resources.

3

4 **Q. Can you estimate the percentage of Avista customers that receive bill assistance**
5 **through LIRAP compared to the total number of eligible customers?**

6 A. Yes. I estimate that only about 21 percent of eligible Avista customers actually
7 receive LIRAP assistance.

8 In 2009, an estimated 31,000 customers, or about 17 percent of total
9 residential customers, in Avista's Washington service territory were at or below 125
10 percent of the FPL, and therefore eligible to qualify for LIRAP.⁷¹ Applying that
11 same proportion of low-income customers to the 2011 customer base results in an
12 estimated 36,500 eligible low-income customers.⁷²

13 By comparison, a total of 7,543 of grants were distributed in the Company's
14 Washington service territory in program year 2010-2011,⁷³ or approximately 21
15 percent of the estimated eligible low-income customer base.

16

17 **Q. How much LIRAP funding directly benefits Avista's customers through grants?**

18 A. In program year 2010-2011, the total revenue collected by Avista for LIRAP was
19 \$4,701,900, and the total amount spent on direct bill assistance grants was \$2,610,161,

⁷¹ Dockets UE-090134, UG-090135 & UG-060518, Exhibit No. ____ (BJH-2), at 76.

⁷² "Avista Corporation 2011 Washington State Electric Annual Report," at 20, filed 4/13/2012 pursuant to RCW 80.04.080.

⁷³ The LIRAP program year was initially May 1 to April 30, and was adjusted to match the federal budgeting year, running from October 1, 2011 to September 30, 2012. The 2011 LIRAP Report covers the program year May 2010 to April 2011, before that adjustment was made.

1 or 55 percent of the total program budget.⁷⁴ The large amount of the program budget
 2 left unspent at the end of the program year is due to the late distribution of LIHEAP
 3 funding in that program year, which took precedence over distribution of LIRAP
 4 grants. Unspent funds are typically carried over to be spent in the next program year.
 5 Table 1 shows the relative funding levels of LIRAP since the program's inception.

6
 7 **Table 1. LIRAP Revenue Relative to Total Revenue, 2001-2011**

Program Year	LIRAP Revenue ⁷⁵	Gas & electric revenue ^{76,77}	Percent of revenue spent on LIRAP
2002	\$2,731,616	\$457,758,970	0.52%
2003	\$2,678,068	\$449,705,487	0.60%
2004	\$3,158,220	\$466,054,767	0.68%
2005	\$3,039,672	\$502,198,862	0.61%
2006	\$3,157,635	\$567,308,768	0.56%
2007	\$3,846,394	\$672,855,318	0.57%
2008	\$3,302,091	\$632,282,185	0.52%
2009	\$4,078,532	\$652,499,763	0.63%
2010	\$4,220,837	\$569,508,215	0.74%
2011	\$4,701,900	\$628,593,123	0.75%

8
 74 LIRAP Report, at 6.

75 LIRAP Report, at 5. This column covers the program year.

76 Annual gas and electric revenue from residential, commercial and industrial sales. For ease of reference, Staff compared LIRAP program year revenue from May 1, 2001, to April 30, 2002, with annual gas and electric revenue from 2002, and so on for each year in this table.

77 Avista Corporation Washington State Annual Electric Reports and Avista Corporation Washington State Annual Gas Reports, 2002-2011.

1 There are three types of grants funded through Avista's LIRAP: LIRAP Heat,
2 Senior Energy Outreach and LIRAP Share. In 2010-2011, the average LIRAP Heat
3 grant amount was \$454 per customer, the average LIRAP Share grant was \$230, and
4 the average Senior Energy Outreach grant was \$254.⁷⁸

5 Table 1 also shows that LIRAP funding is approaching 1 percent. As LIRAP
6 funding approaches 1 percent of revenue, questions about the structure of the current
7 program, the right amount of funding necessary to meet the needs, and how that
8 funding should be managed to efficiently meet the needs of low-income customers
9 need to be addressed.

10

11 **C. The Commission's Low-income Statute**

12

13 **Q. Please identify the Commission's low-income statute.**

14 A. The Commission's authority regarding low-income programs is set forth in RCW
15 80.28.068, which was enacted in 1999, and states:

16 Upon request by an electrical or gas company, or other party to a general rate
17 case hearing,^[79] the commission may approve rates, charges, services, and/or
18 physical facilities at a discount for low-income senior customers and low-
19 income customers. Expenses and lost revenues as a result of these discounts
20 shall be included in the company's cost of service and recovered in rates to
21 other customers.

22

23 **Q. What issues does Staff wish to bring to the Commission's attention in this**
24 **docket regarding that statute?**

⁷⁸ LIRAP Report, at 6.

⁷⁹ The language regarding requests by an "other party to a general rate case hearing" was added in 2009.

1 A. The above statute refers to “rate discounts” with the related costs and lost revenues
2 include in the utility’s cost of service. The LIRAP currently is a grant program,
3 which effectively offers low-income customers service at a reduced rate. Staff
4 recommends the Commission approve a transition from the LIRAP to a rate discount
5 program.

6

7 **D. Advantages of a Discount Rate Program**

8

9 **Q. Are there advantages to a discount rate program over a grant program?**

10 A. Yes. A rate discount program could serve more eligible low-income customers, and
11 would not be implemented on a first come, first served basis.

12 Also, a grant-based program provides a one-time lump sum dollar amount to
13 apply toward a customer’s energy bill, whereas a discounted monthly energy rate can
14 smooth out eligible customers’ monthly energy expenditures, thereby providing
15 greater predictability throughout the year for bill payment and reducing arrearages.

16 A discount rate program can also include tiered rates based on income to
17 meet varied customer needs without requiring an individual benefit calculation,
18 which should reduce the administrative burden.

19 A discounted rate would also bring the program closer in line with the
20 language of the statute, which allows the Commission to “approve rates...at a
21 discount for low-income senior customers and low-income customers.”⁸⁰ A discount

⁸⁰ RCW 80.28.068.

1 rate would be reviewed in a general rate case and included in the utility's cost of
2 service.

3

4 **Q. Is there precedent for a discount rate low-income program?**

5 A. Yes. PacifiCorp's Low-income Bill Assistance (LIBA) program uses a discount rate.
6 The Commission approved this program in 2001,⁸¹ and approved a five year plan for
7 the program when it approved a settlement in Docket UE-111190.⁸² In a 2007 study
8 by a consultant, PacifiCorp's program was found to reduce arrearages more
9 effectively than grant programs.⁸³

10

11 **Q. What are the advantages to focusing on minimizing arrearages rather than
12 reducing energy burden?**

13 A. Focusing on minimizing arrearages directly addresses one of the key goals of a low-
14 income assistance program: to keep low-income customers connected to energy
15 service. Minimizing arrearages is a clearer metric to use for measuring the success
16 of a program than reducing energy burden, because the company already tracks this
17 information. There is uncertainty about how much the energy burden should be
18 reduced, and therefore how much benefit each customer should receive. Energy
19 burden is better suited to a grant program rather than to a rate discount program.

20

⁸¹ PacifiCorp Docket UE-002063, (January 24, 2001).

⁸² *Utilities and Transp. Comm'n v. Avista Corp.*, Dockets UE-111190, Settlement Stipulation (February 21, 2012), at 8-10.

⁸³ Quantec, Low-Income Arrearage Study (2007).

1 **Q. Are there impacts of moving to a discount rate program?**

2 A. Yes. A transition from the current grant-based program to a discount program will
3 have impacts on Senior Energy Outreach and LIRAP Share, which are both currently
4 funded through the same Public Purpose Rider Adjustment – Washington. Staff
5 recognizes the value of both of these programs and suggests that the Company
6 shareholders fund Senior Energy Outreach and LIRAP Share.

7
8 **E. Other Issues with LIRAP**

9
10 **Q. Are there other issues with Avista's LIRAP that Staff is concerned about?**

11 A. Yes. As I described above, Avista's LIRAP is not available to all eligible low-
12 income customers because the current funding level is capped, which limits the
13 number of participants. In effect, LIRAP benefits are distributed on a first-come,
14 first-served basis, which presents a fairness issue.

15 Further, there is uncertainty about the level of benefit sufficient to keep
16 customers connected to energy services and whether the LIRAP benefits accomplish
17 this effectively and efficiently.

18 Having said that, Staff acknowledges that Avista's LIRAP has made
19 significant progress in reducing energy burden. In the last program year, the energy
20 burden was reduced by 47 percent for customers between 51 and 100 percent of the
21 FPL and by 39 percent for customers between 100 and 125 percent of the FPL.⁸⁴

⁸⁴ LIRAP Report, at 4.

1 However, as mentioned above, reducing energy burden may not be the only
2 appropriate goal for LIRAP.

3

4 **F. Two Year Certification of Eligible Customers**

5

6 **Q. What is the issue regarding the frequency of certification of qualified**
7 **customers?**

8 A. Certification of eligible customers is the main administrative cost of low-income
9 programs. This is true for both LIRAP and a discount program.

10

11 **Q. What are the advantages of two-year certification of certain qualified**
12 **customers?**

13 A. The bulk of the administrative costs for LIRAP come from certifying customer
14 eligibility. Currently, the CAAs certify customer eligibility on an annual basis.
15 However, for certain customers, such as those on fixed incomes or Supplemental
16 Security Income, it is unlikely their eligibility will change from one year to the next.
17 Certifying these customers' eligibility for two years instead of one will allow the
18 CAAs to increase the number of customers certified for any given year without
19 increasing funding.

20

21 **Q. Is there precedent for using two-year certification?**

22 A. Yes. PacifiCorp's Low-income Bill Assistance (LIBA) program allows certain
23 eligible customers, primarily those on fixed incomes, to be certified for LIBA

1 participation for two years, instead of one. PacifiCorp's two-year certification will
2 be phased in over a five-year period beginning in 2012. This will allow 25 percent
3 more customers to participate in the program by 2016, while keeping the
4 administrative load of the CAAs constant.

5
6 **G. Recommendations**

7
8 **Q. What does Avista propose concerning low-income assistance?**

9 A. Avista witness Mr. Kopczyński proposes increasing the funding level for LIRAP "by
10 a percentage amount equal to the percentage base rate increase granted in this case
11 for residential customers."⁸⁵ He recommends no changes in the LIRAP program
12 design, but he recommends that program design issues be addressed in a statewide
13 discussion with the Commission, utilities, low-income advocates and other interested
14 parties. Avista does not discuss the rate discount issue, presumably because the
15 Company was not aware of Staff's concerns in that regard.

16
17 **Q. What is Staff's recommendation?**

18 A. Staff recommends that the Commission order Avista to file a proposal in the next
19 general rate case to change LIRAP from a grant program to a discount rate that is
20 included in the company's cost of service. The proposal must:

- 21
- Evaluate minimizing arrearages as the basis for determining benefit amount;

⁸⁵ Dockets UE-120436 & UG-120437, Exhibit No. ____ (DFK-1T), at 45.

- 1 • Implement two-year certification for certain eligible low-income customers,
2 determined in consultation with CAAs; and
3 • Explore options for reducing administrative burden.

4 Additionally, the proposal should:

- 5 • Consider tiered rates based on income level;
6 • Include a multi-year transition plan;
7 • Address the funding for Senior Energy outreach and LIRAP Share; and
8 • Be developed in consultation with Staff, The Energy Project, and the affected
9 agencies.

10 Staff further recommends that the broader issues of low-income assistance program
11 goals, design and implementation be discussed in a statewide context, consistent with
12 Avista's recommendation.

13
14 **Q. What is Staff's recommendation for LIRAP funding in this case?**

15 A. To accommodate an orderly transition to a rate discount program, Staff recommends
16 the Commission maintain the existing funding level for LIRAP. The Commission
17 should require Avista to implement a two-year certification for certain low-income
18 customers, to be determined in consultation with Community Action Agencies
19 (CAAs).

20
21 **Q. Does this conclude your testimony?**

22 A. Yes.
23