

Exhibit No. DCG-1T  
Dockets UE-160228/UG-160229  
Witness: David C. Gomez

BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

AVISTA CORPORATION, d/b/a  
AVISTA UTILITIES,

Respondent.

DOCKETS UE-160228 and  
UG-160229 (*Consolidated*)

TESTIMONY OF

DAVID C. GOMEZ

STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION

*Pro Forma Power Supply Expense*

August 17, 2016

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**LIST OF EXHIBITS**

Exhibit No. DCG-2 Power Supply Adjustment Pro Forma - 09.2015 Historical Loads  
(Staff)  
Exhibit No. DCG-3 Avista Response to UTC Staff Data Request No. 146

1 I. INTRODUCTION

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

4 A. My name is David C. Gomez. My business address is the Richard Hemstad  
5 Building, 1300 S. Evergreen Park Drive S.W., Olympia, Washington 98504.

6  
7 Q. By whom are you employed and in what capacity?

8 A. I am employed by the Washington Utilities and Transportation Commission  
9 (“Commission”) as the Assistant Power Supply Manager in the Energy Section of  
10 the Regulatory Services Division. I attained this position on July 1, 2012. Prior to  
11 my current position, I was the Deputy Assistant Director in the Solid Waste and  
12 Water Section of the Regulatory Services Division.

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

15 A. I have been employed by the Commission since May 2007.

16  
17 Q. Please state your educational and professional background.

18 A. I hold a Bachelor of Arts degree in Business from Hamline University and a Masters  
19 of Business Administration degree from the University of Saint Thomas; both  
20 universities are located in Saint Paul, Minnesota.

21 Before joining the Commission, my relevant professional experience  
22 consisted of 25 years in a variety of fields, including management, contracting,  
23 supply chain, procurement, operations and engineering. I hold professional

1 certifications from the Institute for Supply Management (ISM); APICS - The  
2 Association for Operations Management; Universal Public Procurement Council  
3 (UPPC); and QAI Global Institute (Software Testing).

4 While employed at the Commission, I have performed accounting and  
5 financial analysis of regulated utility and transportation companies, as well as  
6 legislative and policy analysis. I presented testimony on behalf of Commission Staff  
7 in Docket UE-121373, regarding the Coal Transition Power Purchase Agreement  
8 between Puget Sound Energy, Inc. and TransAlta Centralia Generation LLC; Docket  
9 UE-130043, PacifiCorp's 2013 general rate case; and Docket UE-130617, Puget  
10 Sound Energy's 2013 Power Cost Only Rate Case (PCORC). I also provided  
11 testimony in the last two general rate cases of Avista Corporation d/b/a Avista  
12 Utilities ("Avista" or "Company"), Dockets UE-140188 and UE-150204  
13 respectively. I have also presented Staff recommendations to the Commission at  
14 numerous open meetings, and I have worked on various Commission rulemakings.

## 16 II. SCOPE AND SUMMARY OF TESTIMONY

17  
18 **Q. What is the purpose of your testimony in this proceeding?**

19 A. The purpose of my testimony is to present Staff's recommendations to the  
20 Commission regarding Avista's pro forma net power supply expense in this case,  
21 which includes amounts for transmission expenses and revenues.

22 The testimony and exhibits of Ms. Joanna Huang present Staff's overall  
23 revenue requirements, which include proposed adjustments to the revenue

1 requirement results generated through the Company's attrition study.<sup>1</sup> My testimony  
2 below responds to the direct testimony and exhibits of Avista witnesses Mr. Clint  
3 Kalich, Mr. William Johnson, and Mr. Bryan Cox along with their respective  
4 workpapers and responses to Staff's discovery requests. Specifically, I provide  
5 Staff's recommendation on whether Avista's total pro forma power supply expense<sup>2</sup>  
6 amounts for the proposed 18-month rate period (rate period) are reasonable.

7 I also provide Staff's recommendation regarding Avista's proposal to update  
8 its power supply baseline in its Energy Recovery Mechanism (ERM) 60 days before  
9 the start of last 6 months of the Company's proposed rate period.<sup>3</sup> Avista's initial  
10 filing included pro forma power supply expense estimates for the last six months of  
11 the rate period, which Avista proposes to true up with this update. The Washington  
12 allocated power supply expense amounts determined in this case for the rate period  
13 in FERC accounts 555 (Purchased Power), 501 (Thermal Fuel), 547 (Fuel), and 447  
14 (Sales for Resale) are used in Avista's Energy Recovery Mechanism (ERM)<sup>4</sup> to  
15 calculate the base power supply expense. The base power supply expense will be  
16 compared in the rate period against actual power supply expense to determine  
17 deferral amounts not absorbed by the sharing bands.

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<sup>1</sup> Smith, Exh. No. \_\_\_ (JSS-1T) 4:13-23. The Company's rate relief for the 2017 and January to June 2018 rate periods requested in this case are based on the Company's electric and natural gas Attrition Study results sponsored by Ms. Andrews.

<sup>2</sup> For ease of reference and to be consistent with the Company's testimony, Staff's reference to power supply expense is the net of power supply revenues and expenses.

<sup>3</sup> Johnson, Exh. No. \_\_\_ (WGJ-1T) 9:6-20.

<sup>4</sup> In *Washington Utilities and Transportation Commission v. Avista Corporation*, Docket UE-011595, Fifth Supplemental Order (June 18, 2002), the Commission approved and adopted the settlement stipulation by the parties in the case, which included the creation of the ERM.

1                   Finally, I provide testimony regarding the impact in the rate period resulting  
2                   from the Company's most recent changes to the Aurora Model used in the  
3                   calculation of power supply expense amounts.

4  
5   **Q.    Have you prepared any exhibits in support of your testimony?**

6   A.    Yes. I have prepared Exhibit No. DCG-2, Staff's Adjustments to Pro Forma Power  
7           Supply Expense. I have also prepared Exhibit No. DCG-3, Avista's response to UTC  
8           Staff Data Request No. 146.

9  
10   **III.   STAFF'S ADJUSTMENTS TO PRO FORMA POWER SUPPLY EXPENSE**

11  
12   **Q.    Are you proposing any adjustments to Avista's Pro Forma Power Supply**  
13           **Expense amounts for the rate period?**

14   A.    Yes. I am proposing a decrease to Avista's proposed 2017 pro forma power supply  
15           expense amounts of \$1.2 million (system) or approximately a 14 percent reduction to  
16           Avista's proposed \$8.7 million (system) increase<sup>5</sup> in power supply expense. I also  
17           propose that the power supply baseline be set once for the entire rate period which  
18           removes Avista's proposed \$4.3 million (system) pro forma adjustment for the last  
19           six months of the rate period (January – June 2018). I summarize my adjustments in  
20           Exhibit No. DCG-2. My proposed adjustments incorporate Avista's most recent  
21           Production/Transmission (P/T) ratio. The ratio is used to allocate to Washington  
22           ratepayers their share of system power costs. Avista provided Staff with its latest

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<sup>5</sup> Johnson, Exh. No. \_\_\_ (WGJ-1T) 3:10.

1 P/T ratio when it updated the results of its Pro Forma and Attrition Studies in  
2 response to UTC Staff Data Request No. 30.<sup>6</sup>

3  
4 **Q. Why are you proposing an adjustment to Avista's pro forma power supply  
5 expense in this case?**

6 A. In his direct testimony, Avista witness Mr. Johnson explains the purpose of his  
7 proposed adjustments to power supply expense, which includes incorporating  
8 "known and measurable changes for the pro forma period."<sup>7</sup> My adjustments to Mr.  
9 Johnson's 2017 pro forma power supply expense remove certain amounts which I  
10 believe do not meet the Commission's known and measurable standard for pro forma  
11 adjustments articulated in a previous Avista order.<sup>8</sup> Specifically, I reject the  
12 Company's pro forma adjustments for the period spanning October through  
13 December 2017, made in anticipation of an upcoming Bonneville Power  
14 Administration (BPA) rate case which has yet to be filed. I also remove transmission  
15 revenue estimates derived using historical data from a shorter trend period than what  
16 the Company had previously relied on and for which Avista has not provided  
17 adequate evidence as to why this change in methodology is appropriate. Finally, I  
18 reject three pro forma adjustments to power supply contracts where Avista estimated  
19 the amounts by which these contracts would be escalated for inflation by the counter  
20 party.

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<sup>6</sup> Staff\_DR\_030-Supp Attach B – WA 2017 Electric and Staff\_DR\_030-Supp Attach D-WA 2018 Electric, PF Power Supply 09.2015 Load.

<sup>7</sup> Johnson, Exh. No. \_\_ (WGJ-1T) 4:8-13.

<sup>8</sup> *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-090134, UG-090135 & UG-060516, Order 10, ¶¶ 40- 49.

1 **Q. BPA indicates that its 2018-2019 rate case will begin in the fall of 2016.<sup>9</sup> Won't**  
2 **the impact of BPA's new rates be known prior to rates going into effect in this**  
3 **case?**

4 No. The proposed rates at the time of BPA's initial filing this fall will change by an  
5 unknown amount as the rate case progresses. Also, the scope of BPA's rate cases  
6 include changes to rates for power and transmission and span a number of different  
7 product offerings which are affected differently based on cost allocations, rate spread  
8 and rate design. Avista's adjustment reflects a flat percentage applied to  
9 transmission expense amounts only, which Avista has not shown to be representative  
10 of BPA's final tariffed rates. The exact impact of BPA's rate case on Avista's power  
11 supply expense will not be known until a final Record of Decision has been issued  
12 by BPA sometime in the summer of 2017.<sup>10</sup> Mr. Johnson's response to UTC Staff  
13 Data Request No. 146<sup>11</sup> quantifies the Company's adjustments resulting from  
14 Avista's estimates of the impact of the BPA-18 rate case, and I have incorporated his  
15 quantifications into my adjustments.

16  
17 **Q. Avista has made pro forma adjustments to a portion of its wheeling revenues**  
18 **based on a three-year historical average. Does Staff agree with this**  
19 **methodology?**

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<sup>9</sup> The reference here is to a BPA-18 proceeding which sets rates to be charged for BPA's power (the sale of power from federal facilities) and for transmission (the transfer of power over BPA's high-voltage transmission lines throughout the Pacific Northwest) for the 2018-2019 biennium.

<sup>10</sup> The rate effective period of BPA-18 is October 1, 2017, through September 30, 2019.

<sup>11</sup> Gomez, Exh. No. DCG-3.



1 A. No. I recommend the Commission reject Avista's use of a three-year average in  
2 calculating a portion of its forecasted transmission wheeling revenues generated  
3 from the Company's sales of its available transmission capacity during the rate  
4 period.<sup>12</sup> The only support provided by Mr. Cox in his testimony and work papers  
5 that justify the use of a three-year average is his statement that it is more  
6 representative of future transmission revenues than one generated using five years of  
7 data.<sup>13</sup> While this may be true, the Company has yet to provide the evidence  
8 required in rule in support of Avista's proposed change in methodology that it  
9 decided to implement three rate cases ago.<sup>14</sup> For example, the spreadsheet Mr. Cox  
10 uses in his work papers to justify approximately 20 percent of his pro forma  
11 adjustments to wheeling revenues in FERC Account 456 shows nothing more than  
12 the annual actuals he uses to derive a three year average. Nowhere in his worksheet  
13 does he provide evidence or analysis that supports Avista's assertion that using a  
14 three-year average of actual data accurately captures factors which affect  
15 transmission revenues.

16 The bulk of Staff's adjustment to Avista's pro forma amounts in the rate  
17 period are with the forecasted transmission wheeling revenues from the Company's  
18 Borderline Wheeling Transmission and its OASIS Non-firm and Short-Term Firm

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<sup>12</sup> See Cox, Exh. No. \_\_ (BAC-1T) 9:10-18 and 12:7 - 13:3.

<sup>13</sup> The change to a three-year average (from a five-year average) appears to have occurred in Avista's 2012-2013 rate case in UE-120436. In that case, the Commission approved in Order 09 a multi-party "black-box" settlement where parties agreed to firm end-result numbers without indicating which parties' adjustments were included in the final numbers.

<sup>14</sup> WAC 480-07-510(3)(i) states: "Change in methodologies for adjustments. If a party proposes to calculate an adjustment in a manner different from the method that the commission most recently accepted or authorized for the company, it must also present a work paper demonstrating how the adjustment would be calculated under the methodology previously accepted by the commission, and a brief narrative describing the change. Commission approval of a settlement does not constitute commission acceptance of any underlying methodology unless so specified in the order approving the settlement."

1 Transmission services. Staff used Mr. Cox's work papers to calculate a five-year  
2 historical average, in effect restoring the Company's original methodology.

3  
4 **Q. Avista's pro forma adjustments to its power supply expense include inflation**  
5 **assumptions for three purchased power contracts.<sup>15</sup> Do you agree with those**  
6 **adjustments?**

7 A. No. Again, Staff relies on the Commission's guidance in previous orders in  
8 evaluating proposed pro forma adjustments in this case. In Pacific Power's 2013 and  
9 2014 cases, the Commission articulated its standard for pro forma adjustments for  
10 capital additions. This same standard applies to any proposed pro forma adjustment  
11 to normalized test year results, not just capital additions.<sup>16</sup> In his response to UTC  
12 Staff Data Request No. 146, Mr. Johnson acknowledges estimating the amount of  
13 this adjustment, which clearly demonstrates that Avista's pro forma adjustments to  
14 these contracts should be removed.<sup>17</sup>

15  
16 **IV. SECOND POWER COST UPDATE**

17  
18 **Q. Avista proposes to true up its pro forma power supply expense estimates 60**  
19 **days prior to rates going into effect in January 2018 to reflect the most recent**  
20 **information available.<sup>18</sup> Does Staff support this second power cost update?**

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<sup>15</sup> Gomez, Exh. No. DCG-3, Attachment A: WNP-3, Lancaster Capacity Payment and Lancaster Variable Energy.

<sup>16</sup> See *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-140762, Order 08, ¶ 167 (March 25, 2015).

<sup>17</sup> Gomez, Exh. No. DCG-3.

<sup>18</sup> Johnson, Exh. No. \_\_ (WGJ-1T) 9:6-20.

1 A. No. Commission Staff supports a single baseline power cost adjustment for the  
2 entire rate period that includes my adjustments to Avista's pro forma power supply  
3 expense amounts for 2017. Staff believes that the single rate adjustment it proposes  
4 will provide Avista with a sufficient opportunity to earn its authorized return. Staff  
5 witness Mr. Hancock's testimony covers this issue. From a practical standpoint,  
6 Staff considers a second power cost update to be unnecessary.

7  
8 **Q. Why does Staff believe that a second power cost update is unnecessary?**

9 A. The primary reason is that Avista has the ERM to account for fluctuations in power  
10 costs outside of an authorized band for power-cost recovery in base rates. The  
11 mechanism is intended and works well to mitigate Avista's risk if power markets  
12 deviate significantly from the baseline power cost. The baseline set for 2017 will  
13 suffice for the first one-half of 2018. Also, a second power cost update likely would  
14 require parties in this case to conduct separate discovery on, and examine the  
15 prudence of, a six month power supply update at the same time that these same  
16 parties will be four months into a new Avista rate case. Staff expects Avista to file  
17 another general rate case in the summer of 2017. This new rate case will include its  
18 own power cost update and will reset the baseline of the ERM only six months after  
19 Avista's proposed January 2018 update. Given that Avista has filed back-to-back  
20 annual rate cases over the last five-years, a reset of the ERM power cost baseline for  
21 only six months is unwarranted.

1 V. AURORA MODEL CHANGES

2  
3 **Q. Can you summarize the changes Avista has made to its Aurora Dispatch Model**  
4 **in this case?**

5 A. Yes. In Mr. Kalich's testimony he states that the Company made modifications to its  
6 Aurora model since the last rate case to reflect actual project operating  
7 characteristics, forward prices for gas and other information that would help inform  
8 the model's results in the pro forma period in this case.<sup>19</sup> In Avista's confidential  
9 response to UTC Staff Data Request No. 147, the Company provided an itemized list  
10 of modifications that Avista has made to the Aurora model's database since the final  
11 power cost update in UE-150204, which Avista provided two months prior to rates  
12 going into effect in January of 2016 along with their corresponding effect on power  
13 costs.<sup>20</sup> Based on Avista's response to UTC Staff Data Request No. 147, its Aurora  
14 model changes did not significantly affect the model's results in calculating pro  
15 forma power supply expense amounts in this case.

16  
17 **Q. Does Staff agree with Avista that these model changes did not significantly**  
18 **affect the model's pro forma power supply expense results?**

19 A. Yes. Staff is satisfied with the Company's explanation in its response to UTC Staff  
20 Data Request No. 147 that its changes to the Aurora model since its last power cost  
21 update in UE-150204 did not materially affect the calculation of pro forma power  
22 supply expense in this case.

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<sup>19</sup> Kalich, Exh. No. \_\_\_ (CGK-1T) 7:22 – 8:12.

<sup>20</sup> *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, UE-150204 and UE-150205, Order 05, ¶ 12 (Jan. 6, 2016).

1 Q. Does this conclude your testimony?

2 A. Yes.