

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NOS. UE-050482 and UG-050483

REBUTTAL TESTIMONY OF

BRIAN J. HIRSCHKORN

REPRESENTING AVISTA CORPORATION

1 **Q. Please state your name, employer and business address.**

2 A. My name is Brian J. Hirschhorn. I am employed by Avista Corporation as the
3 Manager of Pricing. My business address is 1411 East Mission Avenue, Spokane, WA.

4 **Q. Have you filed direct testimony in this proceeding?**

5 A. Yes I have. My direct testimony in this proceeding covered the spread of the
6 proposed annual electric and natural gas revenue increases among the Company's general
7 service schedules, as well as the design of the proposed rates within those schedules.

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

9 A. My rebuttal testimony will address the electric rate spread and rate design
10 issues discussed and proposals made by Public Counsel witness Lazar in his filed testimony.

11 **Q. On pages 11-13 of Mr. Lazar's testimony, he describes his proposed**
12 **spread of the Commission approved electric revenue increase in this Case. He proposes**
13 **that General Service Schedule 11 and Large General Service Schedule 21 receive less**
14 **than the average percentage increase (0.75 and 0.85, respectively), and that all other**
15 **Schedules receive a uniform percentage increase based on the remaining overall**
16 **revenue increase. Do you agree with his proposal?**

17 A. I do agree with his proposal that Schedules 11 and 21 should receive less than
18 the average percentage increase, however, I do not agree that all other Schedules should
19 receive a uniform percentage increase based on the remaining overall revenue increase. As
20 proposed in my direct filing, as well as the proposed Settlement Agreement, I believe that
21 Residential Schedule 1 and Extra Large General Service Schedule 25 should receive a higher
22 percentage increase than the other service schedules.

1 Mr. Lazar's electric rate spread proposal is based on a total revenue to cost ratio
 2 analysis as shown in Table 2, on page 11 of his testimony. He recommends that schedules
 3 falling within a 90% to 110% revenue to cost ratio range receive the same percentage
 4 increase. I believe that his proposed "range of reasonableness" is too broad to apply a similar
 5 percentage increase, and that the Commission should also examine the rates of return by
 6 schedule in determining the increase by schedule. The overall revenue requirement for the
 7 Company is based on a rate of return analysis, and I believe that a similar analysis by rate
 8 schedule should at least be examined and considered in determining the spread of the
 9 increase.

10 The table below shows the present rate of return by electric rate schedule (from Page
 11 2 of Exhibit No. __ (BJH-4) in my direct testimony).

<u>Service Schedule</u>	<u>Present Rate of Return</u>
Residential Sch. 1	4.23%
General Service Sch. 11	13.14%
Large General Service Sch. 21	10.53%
Ex. Large General Service Sch. 25	4.56%
Pumping Service Sch. 31	7.25%
Street & Area Light Schs. 41-48	7.86%

20 Mr. Lazar proposes that Residential Schedule 1, Extra Large General Service Schedule 25,
 21 Pumping Service Schedule 31, and Street and Area Light Schedules 41-48 all receive the
 22 same percentage increase. However, as shown in column (c), the Pumping and Street and
 23 Area Lighting Schedules are producing approximately a 3% (300 basis points) higher rate of
 24 return than the Residential and Extra Large Service Schedules. I believe that this disparity is

1 simply too substantial to apply a similar increase to these Schedules, and a higher percentage
2 increase should be applied to the Residential and Extra Large Schedules.

3 **Q. Is a higher percentage increase for Residential and Extra Large Service**
4 **contained in the proposed Settlement Agreement?**

5 A. Yes.

6 **Q. Turning now to Mr. Lazar's electric rate design proposals, do you agree**
7 **with his proposed spread of the revenue increase within Residential Service Schedule 1?**

8 A. No, I do not. Mr. Lazar proposes that no increase be applied to the basic
9 charge or the first block rate, and that the entire increase be applied to the second and third
10 block rates under the Schedule. It appears that Mr. Lazar proposes that the percentage
11 increase applied to the third-block rate be approximately one and one-half times the
12 percentage increase applied to the second-block rate. His rationale for the proposed spread is
13 based on a cursory cost analysis shown on pages 16 and 17 of his testimony.

14 The underlying basis of Mr. Lazar's proposal is that lower cost hydroelectric
15 resources should be used to serve the first 600 kWhs of all customers' usage each month, and
16 higher cost (thermal) resources should be used to serve usage in excess of that amount.
17 However, his proposal is not consistent with the actual operation and dispatch of Avista's
18 generating resources. The reality is, as Mr. Kalich explains in his rebuttal testimony, both
19 Avista and the region have a relatively large amount of hydroelectric generation, and this
20 hydro generation has a significant amount of flexibility to serve variations in load, as
21 illustrated in the chart provided by Mr. Kalich. Avista and other regional utilities use this
22 hydro generation to cover both seasonal and intra-day load variations, which would include a

1 substantial amount of the energy used to serve energy used in the second and third blocks of
 2 the Residential Schedule. Further, contrary to Mr. Lazar's supposition, the Company's base-
 3 load thermal resources, such as Colstrip (coal), Kettle Falls (wood-waste), and to a large
 4 extent Coyote Springs 2 (gas), are generally run around the clock, year-around, as they are
 5 available. Therefore, the thermal generators are actually used to serve a substantial portion of
 6 the first 600 kWhs (1st block) used by residential customers each month, and Mr. Lazar's
 7 hypothesis is not supportable from an actual resource dispatch or cost of service standpoint.

8 The result of Mr. Lazar's proposal is that a customer using 600 kWhs would pay no
 9 increase, and the entire revenue increase would be applied to usage in excess of 600 kWhs per
 10 month. His proposal does not provide a reasonable price signal to all customers that the cost
 11 of producing and delivering all energy is increasing. Further, the current difference between
 12 the 1st and 3rd block of Residential Schedule 1 is 1.645 cents/kWh (2.093 cents with ERM).
 13 The existing rate differential is already greater than what the cost of service would support,
 14 and the further expansion of the differential as proposed by Mr. Lazar is not appropriate and
 15 should be rejected.

16 **Q. Based on the proposed increase for Residential Schedule 1 of 8.9% set**
 17 **forth in the Settlement Agreement, what would be the result of Mr. Lazar's proposal**
 18 **when applied to the rate components under the Schedule?**

19 A. Based on my understanding of his proposal, the approximate increase to the
 20 rate components would be as follows:

21	Basic Charge	0%
22	1 st Block Rate	0%
23	2 nd Block Rate	16%
24	3 rd Block Rate	23%

1 **Q. Does Mr. Lazar state in his testimony that he would alter his rate design**
2 **proposal if the Commission approved an overall revenue increase higher than that**
3 **proposed by Public Counsel?**

4 A. No, he does not.

5 **Q. Does the rate design proposal for Residential Schedule 1 set forth in the**
6 **Settlement Agreement increase the present inversion of the rates within the Schedule,**
7 **i.e., does the rate per kWh increase more for usage over 600 kWhs per month than for**
8 **usage under 600 kWhs?**

9 A. Yes, but on a more moderate basis than Mr. Lazar's proposal. As the increase
10 is proposed to be spread on a uniform percentage basis to the present block rates, and the
11 present block rates are higher for usage in excess of 600 kWhs, the increase per kWh is
12 higher for usage in excess of 600 kWhs.

13 **Q. Do you agree with Mr. Lazar's assertion that no increase in the**
14 **residential basic charge is warranted?**

15 A. No, I do not. On page 19, lines 6-8 of Mr. Lazar's testimony, he states that the
16 proposed rate increase is driven by thermal power costs, and that power costs are
17 proportionate to usage and should be recovered in usage rates. I would tend to agree with
18 Mr. Lazar if all of the proposed increase in this Case represented an increase in variable costs,
19 i.e., those costs fluctuated directly with usage. However, a significant portion of the increase
20 requested in this Case represents an increase in fixed costs incurred by the Company that do
21 not vary with usage. The Company is proposing a proportionate increase in the monthly

1 basic charge as compared to the energy charges under the Schedule (approximately 10%) to
2 reflect the fact that its fixed costs of providing service are rising as well.

3 **Q. On pages 19-21 of Mr. Lazar's testimony, he proposes a change in the**
4 **energy rate structure for General Service Schedule 11. Could you briefly describe that**
5 **change?**

6 A. Yes. Mr. Lazar proposes to add an energy rate block to the Schedule with a
7 slightly lower rate for energy consumption over 3,650 kWhs per month. This proposed
8 change results in a more reasonable average rate for larger customers served under the
9 Schedule.

10 **Q. Do you agree with Mr. Lazar's proposed change to the rate structure for**
11 **Schedule 11?**

12 A. Yes. This proposal is contained in the Settlement Agreement and the
13 Company has recently implemented a similar change in its Idaho rates.

14 **Q. Turning to natural gas rate spread, Mr. Lazar proposes that the overall**
15 **revenue increase for natural gas be spread to the Company's service schedules based on**
16 **a uniform percentage of margin. How is his proposal different than the proposal**
17 **contained in the Settlement Agreement?**

18 A. The Settlement Agreement proposes that the natural gas increase be spread on
19 a uniform percentage of margin, except for Interruptible Service Schedule 131 and
20 Transportation Schedule 146, which would receive an increase based on one-half of the
21 uniform percentage. The residual amount resulting from the lower increase applied to

1 Schedules 131 and 146, which is only \$13,000 of the overall increase of \$968,000, is applied
2 to General Service Schedule 101.

3 **Q. Do you believe the rate spread proposal set forth in the Settlement**
4 **Agreement is more appropriate than Mr. Lazar's proposal?**

5 A. Yes. The rate spread proposal set forth in the Settlement Agreement is
6 supported by the results of the cost of service study filed by the Company in this Case, i.e.,
7 Interruptible Service Schedule 131 and Transportation Service Schedule 146 have present
8 rates of return higher than the system average and should receive an increase that is less than
9 the average.

10 **Q. Does that conclude your rebuttal testimony in this proceeding?**

11 A. Yes, it does.

12