WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION STAFF
RESPONSE TO DATA REQUEST

DATE PREPARED: September 21, 2009
DOCKETS: UE-090134/UG-090135
REQUESTER: Avista Corp.

WITNESS: Michael Parvinen
RESPONDER: Michael Parvinen
TELEPHONE: 360-664-1315

REQUEST NO. 16: RE: Page 8, Line 19. Mr. Parvinen states that "Moreover, regulatory lag, to the extent it exists, provides an incentive for the utility to manage its costs in areas it can control, so that it has the opportunity to earn its authorized rate of return."

a. Is it Staff's testimony that it believes it is appropriate for the Commission to intentionally set new retail rates to provide for regulatory lag? Please fully explain your answer and provide any supporting documentation.
b. Is it Staff's testimony that it believes it is appropriate for the Commission to intentionally set new retail rates that would provide recovery of costs at a level lower than that expected during the rate year, such that the Company's opportunity to earn the rate of return authorized by the Commission would be dependent on the Company taking additional measures to reduce its costs. Please fully explain your answer and provide all supporting documentation.

RESPONSE:

a. Regulatory lag exists because of the nature of historical ratemaking. It is not Staff's testimony that that rates should be set "to provide for regulatory lag." It is Staff's testimony that rates be set by examining an appropriate historical test year and adjust the test year for both proper restating and pro forma adjustments. To the extent there are changes in expense, revenues, services, etc in the rate year beyond those identified by adjustment (which there will be since the test year is a snap shot in time) it is the Company's responsibility to manage its costs in order to maximize its rate of return.

   The only given is that the rate year will be different than the test period. The test period is chosen in order to have a representative twelve month period where all revenues, expenses, rate base, and services are properly matched. The rate year will create a new snapshot of a twelve month period with different revenues, expenses, rate base, and services, but all matched for that period. The only way to really know how all the components are matched is after the period has concluded and management has made prudent operating decisions.

   To the extent that costs are higher in the rate year it is only appropriate to reflect those cost increases if they don't impact the services of the test period. The example in Mr. Parvinen's testimony on postage changes is a good example. A change in the postage rate doesn't change the service in the test period or a management decision

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to send out bills. Therefore, it is a proper pro forma adjustment. A cost increase such as adding additional plant, creates a whole new set of relationships between, revenues, expenses, rate base, and services of the whole operations.

b. Please refer to the response to 16 a, above.