

BEFORE THE WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

WUTC V. AVISTA

DOCKET NOS. UE-120436, *et. al.*

CROSS ANSWERING AND RESPONSIVE TESTIMONY OF

DAVID E. DISMUKES, PH.D. (DED-11T)

ON BEHALF OF

PUBLIC COUNSEL

SEPTEMBER 19, 2012

DIRECT TESTIMONY OF DAVID E. DISMUKES (DED-11T)
DOCKET NO. UE-120436, *et. al.*

TABLE OF CONTENTS

	<u>PAGE</u>
I. INTRODUCTION	1
II. SUMMARY OF RECOMMENDATIONS	2
III. AVISTA’S PROPOSED MODIFICATIONS TO NWEC’S REVENUE DECOUPLING PROPOSAL	4
IV. AVISTA’S POLICY POSITIONS ON REVENUE DECOUPLING AND LOST REVENUES	8
V. AVISTA’S ATTRITION ADJUSTMENT PROPOSAL (DSM Component)	17
VI. CONCLUSIONS AND RECOMMENDATIONS	19

1 **I. INTRODUCTION**

2 **Q: Would you please state your name, business address, and occupation?**

3 A: My name is David E. Dismukes. My business address is 5800 One Perkins Place
4 Drive, Suite 5-F, Baton Rouge, Louisiana. I am a Consulting Economist with the
5 Acadian Consulting Group (ACG) and Professor, Associate Executive Director, and
6 Director of Policy Analysis with the Center for Energy Studies, Louisiana State
7 University. I am the same person that provided direct testimony in Docket Nos. UE-
8 110876 and UG-110877 on the behalf of Washington Office of the Attorney General,
9 Public Counsel Unit. I provided my qualifications in Exhibit No. DED-2 of my prior
10 testimony. The purpose of my prior testimony was to provide an expert opinion on
11 the revenue decoupling proposal offered by Mr. Ralph C. Cavanagh on the behalf of
12 the Northwest Energy Coalition (NWECC).¹

13 **Q: What is the purpose of your cross-answering and responsive testimony?**

14 A: The purpose of my current cross-answering testimony is to respond to the direct
15 testimony provided by Mr. Patrick D. Ehrbar, a witness appearing on the behalf of
16 Avista Corporation (“Avista” or “the Company”) in Docket Nos. UE-110876 and
17 UG-110877. My current testimony also responds to Mr. Ehrbar’s direct testimony in
18 the current general rate case (GRC) regarding the Company’s proposed attrition
19 adjustment and how that proposal relates to the Company’s past rebuttal on revenue
20 decoupling. I will also address certain policy decisions on revenue decoupling and

¹ The decoupling issues in Docket No. UE-110876 and Docket No. UE-110877 were consolidated with the current case. *In the Matter of Washington Utilities and Transportation Commission v. Avista*, Order 03, Prehearing Conference Order, Order Granting Request for Limited Consolidation of Docket, Docket UE-120436 and UG-120437 and *In the Matter of Washington Utilities and Transportation Commission v. Avista*, Order Granting Request for Limited Consolidation of Dockets and Vacating Prior Procedural Schedule, Order 08, Docket No. UE-110876 and Docket No. UE-110877.

1 lost revenue recovery mechanisms that have been made by the Commission in the
2 recent Puget Sound Energy Order (PSE Order).² Failure of my testimony to address
3 issues raised by the Company in its cross-answering testimony, or general rate case
4 testimony, but not addressed in my instant testimony, should not be interpreted as an
5 agreement.

6 **Q: How is the remainder of your testimony organized?**

7 A: My testimony is organized into the following sections:

- 8 • Section II: Summary of Recommendations
- 9 • Section III: Avista's Proposed Modifications to NWEC's Revenue Decoupling
10 Proposal
- 11 • Section IV: Avista's Policy Positions on Revenue Decoupling and Lost Revenues
- 12 • Section V: Avista's Attrition Adjustment Proposal (DSM Component)
- 13 • Section VI: Conclusions and Recommendations

14 **II. SUMMARY OF RECOMMENDATIONS**

15 **Q: What are your recommendations regarding the Company's proposed**
16 **modifications to NWEC's revenue decoupling proposal?**

17 A: The Commission should reject the Company's proposed modifications to NWEC's
18 proposed revenue decoupling mechanism. I also continue to recommend that the
19 Commission reject the originally-filed NWEC revenue decoupling since it fails on not

² *In the Matter of Washington Utilities and Transportation Commission v. Puget Sound Energy, Inc.* Order 08: Final Order Rejecting Tariff Sheets; Authorizing and Requiring Compliance Filing, Docket Nos. UE-111048 and UG-111049 (May 7, 2012). ¶¶ 454-456.

1 just one, but several critical criteria outlined in the Commission’s Policy Statement.³
2 In fact, the Commission recognized the deficiencies in the NWEC proposal in its
3 recent PSE Order.⁴ The Company’s proposed modifications do not address all of the
4 Commission’s concerns in the PSE Order, or several others that I raised in my direct
5 testimony. Further, I recommend that the Commission reject any proposals that
6 would “couple” a revenue decoupling mechanism (of any form) with any type of pro
7 forma adjustment. Both methods, in theory, are designed to address the same issue:
8 lost base revenues associated with the Company’s energy efficiency efforts. The
9 proposals should be considered as mutually exclusive, not complementary.

10 **Q: What are your recommendations regarding the Company’s DSM component of**
11 **the attrition adjustment proposal?**

12 A: The Commission should reject the DSM component of the Company’s proposed
13 attrition adjustment. The adjustment fails to address many of the concerns raised by
14 the Commission in its recent PSE Order where a similar type of mechanism, a
15 “Conservation Savings Adjustment” (or “CSA”) was proposed and rejected.⁵ The
16 DSM component of the Company’s attrition adjustment assumes that energy
17 efficiency savings are “known” with “certainty,” a position explicitly rejected by the
18 Commission in the PSE Order. Further, the DSM adjustment is based upon a

³ *In the Matter of the Washington Utilities and Transportation Commission’s Investigation Into Energy Conservation Incentives*, Report and Policy Statement on Regulatory Mechanisms, Including Decoupling, to Encourage Utilities to Meet or Exceed Their Conservation Targets, Docket No. U-100522 (*hereafter Policy Statement*).

⁴ *In the Matter of Washington Utilities and Transportation Commission v. Puget Sound Energy, Inc.* Order 08: Final Order Rejecting Tariff Sheets; Authorizing and Requiring Compliance Filing, Docket Nos. UE-111048 and UG-111049 (May 7, 2012). ¶¶ 454-456.

⁵ *In the Matter of Washington Utilities and Transportation Commission v. Puget Sound Energy, Inc.* Order 08: Final Order Rejecting Tariff Sheets; Authorizing and Requiring Compliance Filing, Docket Nos. UE-111048 and UG-111049 (May 7, 2012). ¶¶ 457 and 472.

1 definition of “costs” that is ambiguous and does not appear to include any correction
2 for variable costs avoided as a result of the Company’s energy efficiency efforts. The
3 ambiguity of the definition of “costs” was another reason why the Commission
4 rejected PSE’s CSA, and why the mechanism offered by the Company in its general
5 rate case should also be rejected. While Avista characterizes the DSM Attrition
6 Adjustment as a “cross check,” and is technically not asking for adoption of this
7 adjustment, I offer this analysis and recommendation in the event the Company
8 changes its position. Mr. James Dittmer, another witness for Public Counsel,
9 provides recommendations on the Company’s overall attrition adjustment, and also
10 discusses the DSM Attrition Adjustment in his responsive testimony.

11 **III. AVISTA’S PROPOSED MODIFICATIONS TO NVEC’S REVENUE**

12 **DECOUPLING PROPOSAL**

13 **Q: Can you discuss Avista’s proposed modifications to NVEC’s revenue decoupling**
14 **proposal?**

15 A: Yes. The Company is not proposing revenue decoupling at this time, but offers
16 details, not included in the original NVEC proposal, on how such a mechanism might
17 work in practice, if adopted. In my earlier testimony I discussed the problems with
18 the NVEC proposal and recommended it not be adopted.⁶ In response to NVEC, for
19 its part, the Company offers a formulation that differs from most typical revenue-per -
20 customer (RPC) based approaches, The Company’s modification of NVEC’s

⁶ Docket Nos. UE-110876 & UG-110877, Direct Testimony of David E. Dismukes, Exhibit No. DED-1T.

1 approach, is based upon the following formulation:

2 **Decoupling Deferral = (Actual Customers * FCC) – (Actual Usage * FCER)**

3 “FCC” is defined as the “fixed cost per customer” and “FCER” is defined as the
4 “fixed cost rate per kWh,” both of which are determined in a formal rate case.⁷

5 **Q: Are the Company’s definition of “fixed costs” included in the Company’s**
6 **alternative (or clarified) revenue decoupling methodology potentially subjective?**

7 A: Yes. The Company’s revenue decoupling methodology “trues-up” to a definition of
8 “fixed costs” that is subjective, and inconsistent with the Company’s cost of service
9 study (COSS). For instance, the Company’s revenue decoupling mechanism will
10 recover some 52 percent of costs for the residential class.⁸ Unfortunately, the
11 Company’s calculations fail to consider other costs which are considered non-fixed
12 and classified as energy-related in the Company’s COSS. These include both
13 common costs and distribution costs. Adjusting for these differences reduces the total
14 fixed costs included in the volumetric charge from \$190.8 million to \$169.3 million.
15 Similarly, it reduces the costs collected from the decoupling mechanism for the
16 residential class to 48 percent.⁹

17 **Q: Please explain how the Company’s other modifications to NWECA’s decoupling**
18 **mechanism fall short of the Commission’s General Policy Statement on Revenue**
19 **Decoupling.**

20 A: The Company’s proposed modifications do not remedy many significant
21 shortcomings associated with the NWECA proposal that I outlined in my direct

⁷ Docket Nos. UE-110876 and UG-110877, Direct Testimony of Patrick D. Ehrbar, Exhibit No. PDE-9T, p. 14, ll. 14-22.

⁸ Docket Nos. UE-110876 and UG-110877, Exhibit No. PDE-10 (Ehrbar), p. 1.

⁹ Please see Workpapers of David E. Dismukes accompanying this testimony.

1 testimony and were also recognized in the Commission’s recent PSE Order,¹⁰ which
2 noted:

3 NWEC’s proposal also includes some features that are
4 inconsistent with the guidance offered by the Policy Statement.
5 First, though the Policy Statement states a preference for an
6 earnings test (Decoupling Policy Statement ¶ 28), Mr.
7 Cavanagh advocates otherwise. He argues, among other
8 things, that such a test would inhibit a company’s incentive to
9 control costs. Cavanagh, Exh. RCC-1T at 15. Second, while
10 the Policy Statement favors a mechanism based on revenue
11 “per class” of customer (Decoupling Policy Statement ¶ 28),
12 the NWEC proposal would base [its] operation on revenue “per
13 customer.” Additionally, in response to the Decoupling Policy
14 Statement suggestion that a potential reduction in ROE in
15 connect with the adoption of a decoupling mechanism should
16 be analyzed, Mr. Cavanagh advocates that there should be no
17 reduction in ROE with the adoption of the decoupling proposal.
18 Mr. Cavanaugh argued that any impact on ROE should be
19 considered by evaluating a mechanism after five years of
20 operation.¹¹

21 **Q: Do the Company’s proposed modifications to the NWEC proposal include any**
22 **earnings tests or an ROE adjustment?**

23 A: No. The Company’s proposed modifications to NWEC’s revenue decoupling plan do
24 not include an earnings test or an ROE adjustment. The Company has argued that
25 both are unnecessary. The Company does, however, state that if the Commission
26 insists on an earnings test, then it should use the one suggested by NWEC in response
27 to Commission Staff Data Request No. 13 dated November 18, 2011.¹² NWEC states
28 that its proposed earnings test is based upon “methods previously approved by the

¹⁰ NWEC filed testimony supporting the implementation of full decoupling for PSE’s electric operations in the most recent PSE general rate case. Docket Nos. UE-111048 and UG-111049, Direct Testimony of Ralph C. Cavanagh, Exhibit No. RCC-1T.

¹¹ Docket Nos. UE-111048 and UG-111049, consolidated. *Washington Utilities and Transportation Commission v. Puget Sound Energy, Inc.* Order 08: Final Order Rejecting Tariff Sheets; Authorizing and Requiring Compliance Filing, May 7, 2012. Final Order at n.605.

¹² Docket Nos. UE-110876 and UG-110877, Direct Testimony of Patrick D. Ehrbar, Exhibit No. PDE-9T, p. 30, ll. 5-7.

1 Commission (i.e., Commission Basis).”¹³ The proposed NWEC earnings test would
2 reduce any revenue decoupling deferrals for earnings exceeding 25 basis points of the
3 Company’s authorized return. While both NWEC and the Company reference
4 Commission precedent for this particular type of earnings test method, neither cite
5 where a 25-basis point dead-band has been allowed by the Commission in either its
6 Policy Statement or any other prior revenue decoupling order.

7 **Q: Do any of the Company’s proposed modifications to the NWEC revenue**
8 **decoupling plan in this case address any of the Commission’s concerns**
9 **enumerated in the PSE order?**

10 A: Yes. The Company does address the Commission’s concern that NWEC’s proposal
11 should reconcile its proposed decoupling mechanism on a per class revenue-per-
12 customer (RPC) rather than on a total company RPC basis (as proposed by NWEC).
13 The Company recommends that the NWEC decoupling be done on a per-class
14 basis.¹⁴

15 **Q: Has the Company identified any other Commission criteria that it believes is not**
16 **relevant for assessing its proposed modification to NWEC’s revenue decoupling**
17 **proposal?**

18 A: Yes. The Company also notes that:

19 / /

20 / / /

¹³ Docket Nos. UE-110876 and UG-110877, NWEC Response to Commission Staff Data Request No. 13, November 18, 2011.

¹⁴ Docket Nos. UE-110876 and UG-110877, Direct Testimony of Patrick D. Ehrbar, Exhibit No. PDE-9T, p. 22, ll.8-13.

1 Adoption of decoupling should not be conditioned upon the Company achieving any
2 incremental level of energy efficiency.¹⁵

- 3 • Adoption of decoupling would not result in a reduction of efforts by the
4 Company to operate efficiently.¹⁶
- 5 • Avista is not proposing a DSM test.¹⁷
- 6 • Avista has not made any adjustments to account for found revenues, like off-
7 system sales, since it agrees with NWECC's position on this matter.¹⁸

8 **Q: Do the Company's modifications of NWECC's revenue decoupling proposal lead**
9 **you to change the recommendations included in your direct testimony?**

10 A: No. The Company has made a few modifications to the NWECC proposal, such as
11 applying the RPC approach on a per class rather than per company basis, and
12 included a rate cap (albeit one that is set at a level higher than most revenue
13 decoupling mechanisms). However, the Company's modifications fail to address a
14 number of other equally important policy failures associated with the NWECC
15 proposal, many of which, as I noted earlier, have already been identified by the
16 Commission in the PSE Order. Thus, I continue to recommend that the Commission
17 reject the NWECC revenue decoupling proposal, and also recommend rejection of the
18 Company's modifications to the NWECC decoupling proposal.

19 **IV. AVISTA'S POLICY POSITIONS ON REVENUE DECOUPLING AND LOST**
20 **REVENUES**

21 **Q: What is the purpose of the Company's testimony in Docket Nos. UE-110876 and**
22 **UG-110877?**

¹⁵ Docket Nos. UE-110876 and UG-110877, Direct Testimony of Patrick D. Ehrbar, Exhibit No. PDE-9T, p. 26, ll. 5-6.

¹⁶ *Id.*, p. 29, ll. 1-3.

¹⁷ *Id.*, p. 30, ll. 26-28.

¹⁸ *Id.*, p. 31, ll. 21-22.

1 A: In his responsive testimony on behalf of Avista, filed in the 2011 rate case
2 proceeding, Mr. Ehrbar provides a response to the revenue decoupling proposal
3 offered by Mr. Cavanagh on behalf of NWECC.¹⁹ Mr. Ehrbar noted, however, that
4 “Avista is not requesting an electric decoupling mechanism at this time, nor did it
5 request one in its original filing.”²⁰ In addition, in its current 2012 general rate case,
6 the Company chose not to propose decoupling, and instead has proposed an attrition
7 adjustment.

8 **Q: Are the Company’s recommendations limited to just a minor modification to**
9 **NWECC’s originally-filed revenue decoupling proposal?**

10 A: No. Moreover, the Company’s specific recommendations in this proceeding are not
11 entirely clear. The Company, as noted earlier, states that it is offering testimony for
12 the primary purpose of making modifications to NWECC’s revenue decoupling
13 proposal in the event that the Commission decides to adopt some form of revenue
14 decoupling for the Company’s electric operations. However, the Company also notes
15 that, if the Commission adopts revenue decoupling, it should be done in a fashion that
16 includes “additional adjustments in the general rate case process to provide the utility
17 with the opportunity to recover its costs and earn the allowed return.”²¹ What
18 adjustments the Company specifically prefers is not clear since later Avista describes
19 two different adjustment options including (1) a pro forma adjustment and (2) a
20 deferred accounting adjustment mechanism that would book verified lost base

¹⁹ Docket Nos. UE-110876 and UG-110877, Direct Testimony of Patrick D. Ehrbar, Exhibit No. PDE-9T., p. 1, ll. 15-17.

²⁰ *Id.*, p. 1, ll. 18-19.

²¹ *Id.*, p. 2, ll.1-3.

1 revenue for later recovery in a future rate case.²² While the Company made a pro
2 forma adjustment recommendation in its last general rate case, it notes that it “is not
3 proposing such an adjustment in this proceeding.”²³

4 **Q: Are these recommendations consistent with the Company’s original proposals in**
5 **its last general rate case?**

6 A: No, at least not collectively, as they have been provided in the Company’s
7 modification of NWECC’s original proposal. In its last general rate case, the Company
8 did not propose any form of revenue decoupling and instead proposed only what it
9 referred to as an Energy Efficiency Load Adjustment (EELA) mechanism. According
10 to the Company, this EELA mechanism was designed to “directly address the
11 reduction of retail revenues associated with Company-sponsored conservation that
12 occurs following the test year, and through the 2012 rate year when new retail rates
13 would be in effect.”²⁴

14 **Q: Are these recommendations consistent with the Company’s recommendation to**
15 **address lost sales associated with DSM in the current GRC?**

16 A: No, at least not on a collective basis. The Company has not proposed electric revenue
17 decoupling, nor has Avista proposed a pro forma adjustment in the current 2012
18 GRC. Instead, the Company proposes to address lost revenues from its energy
19 efficiency efforts through a broader attrition adjustment. Avista’s prior testimony
20 from the 2011 GRC, including its suggested modification to the NWECC decoupling
21 proposal, are now part of the record in the current GRC. In the midst of these

²² Docket Nos. UE-110876 and UG-110877, Direct Testimony of Patrick D. Ehrbar, Exhibit No. PDE-9T, p. 11, ll. 14-23 and p. 12, ll. 10-16.

²³ *Id.*, p. 11, l. 19.

²⁴ *Id.*, p. 2, ll. 16-19.

1 multiple Company recommendations, it is important to recognize the Company
2 should not be granted both electric decoupling and an attrition adjustment. I will
3 discuss the energy efficiency component of Avista's proposed attrition adjustment
4 later in my testimony.

5 **Q: Can you explain the basis for the Company's various recommendations?**

6 A: Yes. It appears that the Company's various recommendations are all based upon a
7 fundamental belief that traditional regulation in Washington is both faulty and
8 intentionally biased, thereby depriving the Company of its opportunity to recover its
9 operating expenses and a return on and of its investments.²⁵ According to the
10 Company, the fundamental problem with utility regulation in Washington is that the
11 Commission sets rates that "do not account for known reduction in sales related to
12 energy efficiency,"²⁶ since energy efficiency represents "a known change following
13 the test year,"²⁷ and that "savings are well-documented."²⁸ The Company goes even
14 further by suggesting that "the ratemaking process in the state of Washington includes
15 retail kWh sales in designing rates that we know will simply not occur."²⁹

16 **Q: Do you agree with the Company's premise that energy efficiency savings are**
17 **"known?"**

18 A: No. Energy efficiency savings are a function of the demand for energy efficiency
19 services, and those services are a function of many of the same variables that
20 influence the demand for other types of goods or services including the price of those

²⁵ Docket Nos. UE-110876 and UG-110877, Direct Testimony of Patrick D. Ehrbar, Exhibit No. PDE-9T, p. 2, ll. 2-3; p. 4, ll. 10-22; p. 5, ll.1-2.

²⁶ *Id.*, p. 4, ll. 21-22. (Emphasis added).

²⁷ *Id.*, p. 7, l. 10. (Emphasis added).

²⁸ *Id.*, p. 7, l. 11.

²⁹ *Id.*, p. 7, ll. 12-14. (Emphasis added).

1 services, income, the price of other alternatives and complements, and tastes and
2 preferences. None of these variables can be predicted with complete certainty.
3 Further, while general relationships associated with these variables and the demand
4 for energy efficiency services may be known, those relationships are typically
5 examined in isolation, holding other factors constant – something that rarely happens
6 in reality.

7 **Q: But aren't Washington electric utilities, including Avista, obligated by statute to**
8 **meet certain energy efficiency goals or face potential penalties?**

9 A: Yes, but goals and potential penalties do not change the fundamental economic
10 relationships leading to the uncertainty associated with the underlying energy
11 efficiency estimates. For instance, the Energy Independence Act (EIA) requires a
12 regulated electric utility to meet certain energy efficiency goals in a given year. If a
13 utility misses these biennial targets, then a penalty of \$50 for each MWh shortfall is
14 assessed.³⁰ The Company's position rests upon a premise that energy efficiency
15 savings are known, with certainty, because there are statutory goals, and that once
16 savings are attained in any given year, they are persistent at that same level into
17 perpetuity. Such a position is tenuous, at best.

18 **Q: But aren't these energy efficiency savings estimates based upon engineering**
19 **analyses?**

20 A: Yes, but these engineering analyses usually rest upon a variety of average and/or
21 assumed operating conditions each of which are stochastic (random) with their own
22 distributions, standard deviations, and uncertainties. This is not to suggest that these

³⁰ The \$50/MWh penalty is adjusted annually for inflation beginning in 2007.

1 engineering analyses are flawed, but simply recognizes that these estimates
2 themselves are based upon a variety of estimates that create some degree of
3 uncertainty relative to a specific set of efficiency applications. For example, Avista's
4 electric conservation savings for 2010-2011 originally assumed savings of 3,237 kwh
5 per unit for a Residential Air Source Heat Pump with a heating season performance
6 factor (HSPF) of 8.5 or greater. However, as a result of a metering study conducted
7 as part of the electric portfolio impact evaluation for 2010-2011, those savings were
8 reduced to 337 kwh per unit, a 90 percent reduction.³¹ One of the significant findings
9 of the metering study was that 76 percent of homes use a natural gas furnace as
10 backup heating, which substantially reduces the operating hours of the heat pump and
11 resulting electric savings.³² While these evaluation results were incorporated in
12 Avista's final verified electric savings for 2010-2011, this example illustrates that
13 these estimates are inherently characterized by some uncertainty, even when
14 examined in isolation of other variables.

15 The Company also appears to acknowledge this variability and uncertainty,
16 stating in its 2012-2013 Biennial Conservation Plan:

17 The Company's energy efficiency expectations over this time
18 period are founded upon the pursuit of cost-effective energy
19 efficiency by the utility and operating within the prevailing
20 market and economic conditions. Though advancements in
21 energy efficient technologies continue to occur and the ability
22 of utilities to apply innovative approaches to program
23 implementation have accelerated, the influence of the recession
24 upon the demand and marketability of efficiency technologies
25 has adversely influenced our projections.

³¹ Docket No. UE-100176, Avista's 2010-2011 Biennial Conservation Results, filed June 1, 2012, Exhibit MSK-2, Table 1-20, p. 37.

³² Docket No. UE-100176, Avista's 2010-2011 Biennial Conservation Results, filed June 1, 2012, Exhibit MSK-2, Appendix C, p. 109.

1

2 A number of factors contribute to the differences between these
3 values with those of the last biennium, to include updated
4 macroeconomic conditions, the impact of tax credits advancing
5 some efficiency opportunities into prior years, and
6 improvements in technology options and implementation
7 strategies.³³

8 **Q: Are the Company’s estimated cost-effective energy efficiency potentials**
9 **increasing or decreasing?**

10 A: They are decreasing. For instance, Avista’s recently approved biennial electric
11 conservation target for 2012-2013 is based upon a lower-range estimate of 108,589
12 megawatt-hours: a level 16 percent lower than the prior 2010-2011 target of 128,603
13 megawatt-hours.³⁴ The 2012-2013 biennial target includes 76,202 megawatt-hours
14 from electric end-use efficiency (70 percent of target), and 32,387 megawatt-hours
15 from distribution efficiency (30 percent of target).³⁵ Therefore, the expected savings
16 resulting from end-use conservation programs are substantially lower than the prior
17 biennial target. This makes the overall revenue and earnings impact of the
18 Company’s energy efficiency programs, which I discussed in my direct testimony,
19 even smaller.

20 / /

21 / / /

³³ Docket No. UE-111882. *In the Matter of Avista’s Ten-year Achievable Conservation Potential and Biennial Conservation Report in Compliance with RCW 19.285 and WAC 480-109.* 2012-2013 Biennial Conservation Plan of Avista Corporation. November 1, 2011. p. 7.

³⁴ Docket UE-111882, *In the Matter of Avista Corporation’s 2012-2021 Ten-Year Achievable Conservation Potential and 2012-2013 Biennial Conservation Target Under RCW 19.285.040*, Order 01, February 10, 2012, ¶ 9. Avista’s 2010-2011 biennial conservation target was approved in Docket UE-100176, Order 01.

³⁵ Docket UE-111882, Order 01, February 10, 2012, ¶ 9.

1 **Q: Has the Commission also recognized the uncertainty associated with**
2 **energy efficiency estimates in the past?**

3 A: Yes. In the recent PSE general rate case, the Commission raised a number of issues
4 related to the certainty associated with energy efficiency savings, as did some of the
5 parties. In the last rate case, PSE requested a pro forma adjustment mechanism,
6 called a Conservation Savings Adjustment (CSA) that has many similarities with the
7 EELA and the conceptual pro forma adjustment mechanism being proposed by the
8 Company in its revenue decoupling testimony. PSE’s proposed CSA adjustment was
9 also based upon a calculation that effectively multiplied its unitized lost fixed costs
10 by the energy efficiency savings it stated would be known in the upcoming rate year.
11 The Commission rejected PSE’s premise that these energy efficiency savings were
12 “known” with any degree of certainty. The Commission specifically noted that “no
13 matter how well suited the engineering estimates of savings may be for their intended
14 purposes, we do not find them suitable for the purpose of determining rates.”³⁶

15 **Q: Are Avista’s positions effectively a request for complete revenue insurance?**

16 A: Yes. The Company would like the Commission to fully insure it against any potential
17 sales losses associated with its energy efficiency efforts, as well as providing it with
18 insurance for sales revenues it might have achieved through growth. This is not the
19 first time Avista has made such an argument. The argument has already been

³⁶ Docket Nos. UE-111048 and UG-111049, consolidated. *Washington Utilities and Transportation Commission v. Puget Sound Energy, Inc.* Order 08: Final Order Rejecting Tariff Sheets; Authorizing and Requiring Compliance Filing, May 7, 2012. Final Order ¶ 473.

1 specifically rejected by the Commission in Avista’s 2009 general rate case:

2 The Company [Avista] argues that its decoupling mechanism is
3 necessary to allow the recovery of fixed costs approved in the
4 most recent general rate case. We disagree that decoupling’s
5 purpose is so broad. The regulatory construct for decoupling in
6 Washington has centered on the utility’s performance relative
7 to conservation. ... We seek to avoid guaranteed recovery of
8 lost margin that would occur should lost margin from other
9 causes be included in the mechanism.³⁷

10 **Q: Do you agree with the Company’s proposed pro forma adjustment?**

11 A: No. Any such adjustment mechanism effectively assumes that sales associated with
12 energy efficiency will occur with certainty. The Commission’s findings and recent
13 precedent in the PSE Order rejecting this type of mechanism are quite clear.

14 **Q: Can you summarize the Company’s position relative to the Commission’s Policy**
15 **Statement regarding return on equity (ROE) adjustments for revenue**
16 **decoupling mechanisms?**

17 A: The Company states that any proposal to adjust its ROE as a result of adopting
18 revenue decoupling is “without merit.”³⁸ The Company makes the argument that
19 applying an ROE effectively counteracts the restoration of revenues that decoupling
20 was intended to restore in the first place.³⁹

21 **Q: Is Avista’s position on ROE adjustments consistent with the Commission’s**
22 **recent PSE Order?**

³⁷ Docket Nos. UE-090134 and UG-090135, consolidated. *Washington Utilities and Transportation Commission v. Avista Corporation, d./b./a. Avista Utilities*. Order 10: Final Order Rejecting Tariff Filing; Approving and Adopting Multi-Party Partial Settlement Stimulation; Deferring Lancaster Costs; Extending Decoupling Mechanism; Authorizing Tariff Filing; and Requiring Compliance Filing, December 22, 2009. Final Order at ¶ 291 (emphasis added).

³⁸ Docket Nos. UE-110876 and UG-110877, Direct Testimony of Patrick D. Ehrbar, Exhibit No. PDE-9T, p. 9, l. 9.

³⁹ Docket Nos. UE-110876 and UG-110877, Direct Testimony of Patrick D. Ehrbar, Exhibit No. PDE-9T, p. 9, ll. 17-23; p. 10, ll. 1-10.

1 A: No. In fact, the Commission made the point of reiterating its position in its recent

2 PSE Order, noting:

3 By reducing the risk of volatility of revenue based on customer
4 usage, both up and down, such a mechanism [decoupling] can
5 serve to reduce risk to the company, and therefore to investors,
6 which in turn should benefit customers by reducing a company's
7 debt and equity costs. This reduction in costs would flow thought
8 to ratepayers in the form of rates that would be lower than they
9 otherwise would be, as the rates would be set to reflect the
10 assumption of more risk by ratepayers.⁴⁰

11 **V. AVISTA'S ATTRITION ADJUSTMENT PROPOSAL (DSM Component)**

12 **Q: Can you please explain the DSM component of Avista's attrition adjustment**
13 **proposal that is part of its current general rate case?**

14 A: Yes. The Company's overall attrition adjustment accounts, at least indirectly, for lost
15 sales associated with its conservation efforts. Mr. Ehrbar's testimony on behalf of
16 Avista in the 2012 general rate case discusses the DSM component of the attrition
17 adjustment that is used by Ms. Andrews as a "cross-check" on the overall attrition
18 adjustment proposed by Dr. Lowry.⁴¹ The DSM component of this "cross-check"
19 adjustment is very similar to the EELA that was filed in the Company's last GRC.

20 The adjustment has three basic components:

21 (1) Total energy efficiency estimates are estimated for the pro forma period. The
22 Company's adjustment uses actual (unaudited) 2011 efficiency results. These are
23 adjusted for the share already included in the test year, and sculpted across
24 customer classes based upon observed 2011 distribution of savings. An
25 adjustment, however, was made for the one-time compact florescent "CFL
26 contingency" direct-mail program. The Company uses the lower range of its

⁴⁰ Decoupling Policy Statement at 27, quoted in PSE General Rate Case Order: Docket Nos. UE-111048 and UG-111049, consolidated. *Washington Utilities and Transportation Commission v. Puget Sound Energy, Inc.* Order 08: Final Order Rejecting Tariff Sheets; Authorizing and Requiring Compliance Filing, May 7, 2012. Final Order at 446 (emphasis added).

⁴¹ Docket Nos. UE-120436 *et. al.*, Direct Testimony of Elizabeth M. Andrews, Exhibit No. EMA-1T, p. 13, ll. 3-5.

1 estimated 2012 and 2013 energy efficiency savings filed with the Commission in
2 Docket UE-111882.

3 (2) The Company estimates average revenues per kWh from its test year information.
4 Total revenues less customer charge revenues are divided by test year sales to
5 estimate a unit rate for estimating lost base revenues.

6 (3) Conservation lost revenues are estimated as the product of the kWh savings
7 (2011, 2012, 2013) and the average revenues per kWh.

8 (4) The final estimate includes an off-system sales credit. This credit is estimated as
9 the product of the average price for off-system sales/purchases and estimated
10 energy efficiency savings discussed in (1) above.

11 **Q: How does this proposed attrition adjustment mechanism relate to the**
12 **Commission's recent PSE decision?**

13 A: The attrition mechanism is inconsistent with the Commission's PSE Order in two
14 respects. First, the DSM component of the attrition adjustment uses estimated
15 savings, characterizing them as "known" on several occasions. The fact that the
16 Company itself notes that actual savings could fall within some type of range
17 undermines the "known" nature and certainty of these savings. Second, the average
18 revenue per kWh used in the Company's DSM adjustment appears to be exactly the
19 same type of adjustment as the "fixed costs" estimate included PSE's recent CSA.
20 The Commission rejected the use of this calculation in its recent PSE Order, noting
21 that the CSA:

22 ...does not include any calculation of the Company's actual
23 costs on which the proposed rate will be based. Instead,
24 "costs" are calculated by first estimating conservation savings
25 and then applying the Company's existing rates to those
26 savings to determine the "cost" to be recovered. Apparently,
27 the Company does not actually allocate between fixed and
28 variable costs for this calculation. Rather, all of PSE's costs
29 other than its power costs and gas commodity costs, and any
30 costs recovered through the fixed basic charge for the
31 respective service, would be reflected in and recovered

1 through the CSA rate to the extent they are arguably under
2 recovered due to load lost to conservation.⁴²

3 Avista’s adjustment is clearly not consistent with this guidance.

4 While the Company has not technically requested adoption of this DSM
5 Attrition “cross check,” I am providing this analysis and recommendation in
6 the event Avista changes its position.

7 **VI. CONCLUSIONS AND RECOMMENDATIONS**

8 **Q: What are your recommendations regarding the Company’s proposed**
9 **modifications to NWEC’s revenue decoupling proposal?**

10 A: The Commission should reject the Company’s proposed modifications to NWEC’s
11 proposed revenue decoupling mechanism. I also continue to recommend that the
12 Commission reject the originally-filed NWEC revenue decoupling since it fails on not
13 just one, but several critical criteria outlined in the Commission’s Policy Statement.⁴³
14 In fact, the Commission recognized the deficiencies in the NWEC proposal in its
15 recent PSE Order.⁴⁴ The Company’s proposed modifications do not address all of the
16 Commission’s concerns in the PSE Order, or several others that I raised in my direct
17 testimony. Further, I recommend that the Commission reject any proposals that
18 would “couple” a revenue decoupling mechanism (of any form) with any type of pro

⁴² Docket Nos. UE-111048 and UG-111049, consolidated. *Washington Utilities and Transportation Commission v. Puget Sound Energy, Inc.* Order 08: Final Order Rejecting Tariff Sheets; Authorizing and Requiring Compliance Filing, May 7, 2012. Final Order at ¶ 464.

⁴³ *In the Matter of the Washington Utilities and Transportation Commission’s Investigation Into Energy Conservation Incentives*, Report and Policy Statement on Regulatory Mechanisms, Including Decoupling, to Encourage Utilities to Meet or Exceed Their Conservation Targets, Docket No. U-100522 (*hereafter Policy Statement*.)

⁴⁴ *In the Matter of Washington Utilities and Transportation Commission v. Puget Sound Energy, Inc.* Order 08: Final Order Rejecting Tariff Sheets; Authorizing and Requiring Compliance Filing, Docket Nos. UE-111048 and UG-111049 (May 7, 2012). ¶¶ 454-456.

1 forma adjustment. Both methods, in theory, are designed to address the same issue:
2 lost base revenues associated with the Company's energy efficiency efforts. The
3 proposals should be considered as mutually exclusive, not complementary.

4 **Q: What are your recommendations regarding the Company's DSM component of**
5 **the attrition adjustment proposal?**

6 A: The Commission should reject the DSM component of the Company's proposed
7 attrition adjustment. The adjustment fails to address many of the concerns raised by
8 the Commission in its recent PSE Order where a similar type of mechanism, a
9 "Conservation Savings Adjustment" (or "CSA") was proposed and rejected.⁴⁵ The
10 DSM component of the Company's attrition adjustment assumes that energy
11 efficiency savings are "known" with "certainty," a position explicitly rejected by the
12 Commission in the PSE Order. Further, the DSM adjustment is based upon a
13 definition of "costs" that is ambiguous and does not appear to include any correction
14 for variable costs avoided as a result of the Company's energy efficiency efforts. The
15 ambiguity of the definition of "costs" was another reason why the Commission
16 rejected PSE's CSA, and why the mechanism offered by the Company in its general
17 rate case should also be rejected.

18 **Q: Does this conclude your testimony filed on September 19, 2012?**

19 A: Yes.

⁴⁵ Docket Nos. UE-111048 and UG-111049, *In the Matter of Washington Utilities and Transportation Commission v. Puget Sound Energy, Inc.* Order 08: Final Order Rejecting Tariff Sheets; Authorizing and Requiring Compliance Filing, (May 7, 2012), at ¶ 457 and ¶ 472.