

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION,)	
)	Docket No. UE-050482
Complainant,)	
)	Docket No. UG-050483
vs.)	
)	<i>(consolidated)</i>
AVISTA CORPORATION,)	
)	
Respondent.)	
_____)	

REBUTTAL TESTIMONY OF KATHRYN IVERSON
ON BEHALF OF
THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

September 22, 2005

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A.** My name is Kathryn Iverson and my business address is 17244 W. Cordova Court,
3 Surprise, Arizona 85387.

4 **Q. WHAT IS YOUR OCCUPATION?**

5 **A.** I am a consultant in the field of public utility regulation and an associate in the firm of
6 Brubaker & Associates, Inc., energy, economic and regulatory consultants.

7 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**
8 **EXPERIENCE.**

9 **A.** I have a Bachelor of Science Degree in Agricultural Sciences and a Master of Science
10 Degree in Economics from Colorado State University. I have been a consultant in this
11 field since 1984, with experience in utility resource matters, cost allocation and rate
12 design. These are set forth in Exhibit No.__(KEI-2).

13 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

14 **A.** I am appearing on behalf of the Industrial Customers of Northwest Utilities (“ICNU”).

15 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

16 **A.** I will make comments on the rate spread proposal outlined in the Direct Testimony of
17 Jim Lazar on behalf of the Public Counsel Section, Office of the Attorney General
18 (“Public Counsel”). I will compare Public Counsel’s proposal to the rate spread
19 outlined in the proposed settlement (“Settlement Agreement”) filed by Avista
20 Corporation (“Avista” or the “Company”), the Staff of the Washington Utilities and
21 Transportation Commission (“WUTC” or the “Commission”), the Northwest
22 Industrial Gas Users, and the Energy Project, which are jointly referred to as “Signing
23 Parties.”

1 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS CONCERNING THE**
2 **PROPOSED RATE SPREAD METHODS PRESENTED TO THIS**
3 **COMMISSION.**

4 **A.** The rate spread methodology proposed by Public Counsel should be rejected in favor
5 of the method outlined in the Settlement Agreement. Public Counsel's rate spread
6 proposal will result in dissimilar treatment of customers, and could result in some
7 customer classes moving away from, rather than towards, cost of service. The
8 Settlement Agreement rate spread methodology allows a better progression for
9 moving rates toward costs, and should be adopted in this docket.

10 **Q. DOES ICNU SUPPORT THE COST OF SERVICE STUDY PREPARED BY**
11 **AVISTA AND USED IN YOUR EXHIBITS?**

12 **A.** No. While ICNU does not necessarily agree with the methodology or accuracy of the
13 results of the Avista cost of service study, ICNU is willing to use the results of
14 Avista's cost study in order to assess the impacts of the various rate spread proposals
15 in this docket. Furthermore, the use of any proposed revenue requirement increase
16 shown in my exhibits is merely for illustrative purposes and should not be interpreted
17 as a recommendation that Avista is entitled to receive the amount of increase
18 requested in the Settlement Agreement.

19 **Q. WHAT DOES AVISTA'S COST STUDY SHOW AS THE PRESENT RATES**
20 **OF RETURN BY CUSTOMER CLASS?**

21 **A.** Exhibit No.__(KEI-3) summarizes the results of the cost of service study provided by
22 Avista as Exhibit No.__(TLK-3). While the system average rate of return ("ROR")
23 is 6.87%, the class returns range from a low of 4.23% to a high of 13.14%. The return
24 ratio, shown in Column (4), represents the proximity of each customer class's return to
25 Avista's system average. A return ratio above 1.00 means that a class is providing a
26 rate of return higher than the system average, while a return ratio below 1.00 indicates

1 that a class is providing a below-system average rate of return. Pumping Service
2 (Schedules 31-32) and Street and Area Lights (Schedules 41-49) are relatively closer
3 to the system average with return ratios of 1.06 and 1.14, respectively.

4 **Q. HOW DID AVISTA ORIGINALLY PROPOSE TO ALLOCATE THE**
5 **PROPOSED REVENUE INCREASE AMONG CUSTOMER CLASSES?**

6 **A.** The intent of Avista’s originally filed rate spread methodology was to move each class
7 approximately 1/3 of the way to system average rate of return. See Exhibit
8 No.__(BJH-1T) at 10. Avista’s filed proposal is summarized on Exhibit
9 No.__(KEI-4). Column (5) provides Avista’s originally filed proposed increases by
10 customer class relative to the system average increase. For example, under the
11 original filing method, Avista proposed below-system average increases to four
12 customer classes and above-system increases to the other two classes. Column (9) of
13 Exhibit No.__(KEI-4) shows that Avista’s original proposal resulted in all customer
14 classes being moved approximately 1/3 of the way towards “unity.”

15 **Q. WHAT DO YOU MEAN BY MOVEMENT TO “UNITY?”**

16 **A.** When a proposed rate spread is reviewed for reasonableness, this Commission
17 typically looks at how customers would be moved toward “unity,” that is, whether
18 revenues from each customer class contribute proportionately to the company’s rate of
19 return. See WUTC v. Avista Corporation, Docket Nos. UE-991606 and UG-991607,
20 Third Supp. Order at 108 (Sept. 29, 2000). Importantly, a customer class with a return
21 ratio of unity is paying revenues which recover all its expenses plus providing
22 adequate revenues to allow the utility to earn its average return. Moving a customer
23 class to unity does not imply that the Commission is only moving their revenues to

1 cost for just the return portion; it means the Commission is moving the class such that
2 it recovers all its expenses, as well as providing a system-wide average return.

3 The measurement of how far a class is moved to unity is based upon its return
4 ratio (sometimes also referred to as “relative rate of return”). For example, a rate
5 spread proposal which moves a customer class from a return ratio of 0.70 to 0.80
6 would be making a movement of approximately 33% towards unity.^{1/}

7 **Q. HOW DOES THE SETTLEMENT AGREEMENT RATE SPREAD**
8 **PROPOSAL DIFFER FROM AVISTA’S ORIGINAL TREATMENT?**

9 **A.** The Settlement Agreement continues to support above-system increases for two
10 classes (Residential and Extra Large General Service) and below-system increases for
11 two classes (General Service and Large General Service). The remaining two classes
12 (Pumping Service and Street & Area Lights) receive system average increases given
13 their current revenues being relatively closer to unity than the other classes. More
14 importantly, the Settlement Agreement method differentiates the above-system and
15 below-system increases between customer classes in order to maintain general
16 consistency in the movement of these classes towards unity return.

17 As shown in Exhibit No.__(KEI-5), the Settlement Agreement rate spread
18 proposal provides for most customers to move roughly 23-24% towards unity return.
19 Classes receiving the system average make a smaller movement towards unity;
20 however, this is appropriate since these customer classes are already relatively closer
21 to unity under present rates.

^{1/} The derivation of 33% is: $(0.80 - 0.70) \div (1.00 - 0.70) = 0.1 \div 0.3 = 1/3$ or 33%.

1 **Q. HAS PUBLIC COUNSEL SUGGESTED AN ALTERNATIVE RATE SPREAD**
2 **METHOD FOR THE COMMISSION'S REVIEW?**

3 **A.** Yes. Exhibit No.__(JL-5) contains Public Counsel's proposal based on a base
4 revenue increase of \$5,867,000. Column (5) of Exhibit No.__(KEI-6) shows that
5 under the Public Counsel's proposal the relative increase for General Service (75%)
6 and Large General Service (85%) are the same as the Settlement Agreement.
7 However, unlike the Settlement Agreement, the remaining classes all receive uniform
8 relative increases of 112% of the system average. The outcome of this proposal
9 results in two classes exhibiting movement slightly away from cost.

10 **Q. EXHIBIT NO.__(JL-5) ASSUMES THAT THE BASE RATE INCREASE IS**
11 **ROUGHLY \$6 MILLION. FOR COMPARISON PURPOSES, HAVE YOU**
12 **CALCULATED THE RESULTS OF PUBLIC COUNSEL'S RATE SPREAD**
13 **USING A REVENUE REQUIREMENT BASED ON THE SETTLEMENT**
14 **AGREEMENT?**

15 **A.** Yes. In order to allow a better comparison between the Settlement Agreement rate
16 spread and Public Counsel's, I have calculated Public Counsel's rate spread premised
17 on an increase of \$22.134 million. These results are shown on Exhibit
18 No.__(KEI-7). The increases to the classes reflect the higher overall system increase
19 of 7.7% for illustrative purposes. At this level of revenue increase, we see a
20 discrepancy in the movement toward unity between classes. For example, as shown in
21 Column (9), the Extra Large General Service class makes the largest movement
22 toward unity (26.1%). However, despite the fact that the Residential class is farthest
23 from unity, it makes the smallest (positive) movement to unity (22.8%). Furthermore,
24 application of above-system increases to Pumping Service and Street & Area Lights
25 does not make sense since those customers are already closer to unity than other
26 classes.

1 **Q. UPON WHAT BASIS DOES PUBLIC COUNSEL SUPPORT ITS RATE**
2 **SPREAD PROPOSAL?**

3 **A.** Public Counsel supports its method by claiming that customer classes within a “range
4 of reasonableness of 90% to 110% parity” should be treated uniformly. Parity, in this
5 instance, is a different measurement than unity described above. Public Counsel’s
6 parity is based not on relative rates of return, but on a “revenue to cost ratio.” Since
7 four of the six classes fall within Public Counsel’s “range of reasonableness of 90% to
8 110% of parity,” all four of these customer classes are given the same percentage
9 revenue increase of 112% of the system average increase.

10 **Q. DO YOU AGREE THAT RATE SPREAD SHOULD BE BASED UPON**
11 **PUBLIC COUNSEL’S 90% TO 110% PARITY PRINCIPLE?**

12 **A.** No. Public Counsel’s method masks the underlying reality of disparate rates of return
13 and does not provide adequate information to ensure that classes are making the
14 Commission’s preferred movement toward unity. For example, both Residential and
15 Lighting classes fall within Public Counsel’s range of reasonableness since their
16 revenue to cost ratios are 90% and 103%. However, based on Avista’s cost of service
17 study, their rates of return are markedly different, as shown below:

	Residential	Street & Area Lights
Revenues (At Current Rates)	\$122,064,000	\$4,291,000
Cost (At Uniform Current Return)	\$137,525,486	\$4,120,014
Revenue to Cost Ratio	0.89	1.04
Rate of Return	4.23%	7.86%
Return Ratio at Current Rates	0.61	1.14
Public Counsel’s Proposed Increase Relative to System Increase	112%	112%
Return Ratio under Public Counsel’s Proposed Rate Spread	0.70	1.17

1 Even though the Lighting class has a significantly higher rate of return – and in fact, a
2 return that is higher than the system average under current rates – Public Counsel’s
3 method would treat Residential and Lighting classes similarly for rate spread.
4 Consequently, classes with significantly divergent rates of return would receive
5 similar rate increases using the parity guideline. This is inappropriate because it fails
6 to properly consider the class returns in apportioning the revenue increase among
7 classes.

8 **Q. DOES THE SETTLEMENT AGREEMENT PROVIDE A MORE SOUND**
9 **APPROACH FOR RATE SPREAD IN MOVING CLASSES TOWARDS**
10 **UNITY THAN PUBLIC COUNSEL’S APPROACH?**

11 **A.** Yes. The Settlement Agreement provides for all customers receiving increases other
12 than system average to make similar movement to unity. Public Counsel’s approach,
13 on the other hand, results in inconsistent treatment among these classes, and could
14 even potentially lead to some classes moving away from cost. ICNU recommends that
15 the Commission reject Public Counsel’s method and instead approve the rate spread
16 method outlined in the Settlement Agreement.

17 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

18 **A.** Yes.