

DOCKET NOS. UE-050482 & UG-050483
Rebuttal Testimony of Jim Lazar
Exhibit No. ____ (JL-12T)
Revised October 6, 2005

BEFORE THE WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

WUTC V. AVISTA CORPORATION d/b/a AVISTA UTILITIES

DOCKET NOS. UE-050482 AND UG-050483

REBUTTAL TESTIMONY OF JIM LAZAR (JL-12T)

ON BEHALF OF

PUBLIC COUNSEL

REVISED OCTOBER 6, 2005

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TABLE OF CONTENTS

I. INTRODUCTION/SUMMARY1
II. REVISED ELECTRIC RATE SPREAD AND RATE DESIGN.....2
III. NATURAL GAS RATE SPREAD AND RATE DESIGN.....5
IV. ELECTRIC RATE DESIGN6
V. SUMMARY.....13

TABLES

Table 1. Comparison of Proposed Electric Increase by Customer Class.....3
Table 2. Comparison of Proposed Residential Rates.....4
Table 3. Percentage of Total Increase on Each Rate Element.....6
Table 4. Components of Avista Customer-Related Costs.....7
Table 5. Approximate Average Cost of Delivered Power by Fuel Type.....10

LAZAR EXHIBIT LIST

Exhibit No. ____ (JL-13) Revised Electric Rate Spread
Exhibit No. ____ (JL-14) Revised Electric Residential Rate Design
Exhibit No. ____ (JL-15) Revised Schedule 11 Rate Design
Exhibit No. ____ (JL-16) Revised Natural Gas Rate Spread
Exhibit No. ____ (JL-17) Revised Natural Gas Schedule 101 Rate Design
Exhibit No. ____ (JL-18) Electric Customer-Related Costs

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I. INTRODUCTION AND SUMMARY

Q. Are you the same Jim Lazar who presented direct testimony in this proceeding?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. First, I have prepared revised electric rate spread and rate design exhibits, based on the rebuttal electric revenue requirement presented by Mr. Dittmer.

Second, I have prepared revised natural gas rate spread and rate design exhibits, based on the rebuttal natural gas revenue requirement presented by Mr. Dittmer.

Finally, I respond to the electric rate design proposals contained in the testimony filed by Staff and Avista. I show why the residential rate design I have proposed is superior in terms of tracking costs and meeting Commission goals.

Q. What rebuttal exhibits are you sponsoring?

A. I am sponsoring the following exhibits:

- JL-13 Revised Electric Rate Spread
- JL-14 Revised Electric Residential Rate Design
- JL-15 Revised Schedule 11 Rate Design
- JL-16 Revised Natural Gas Rate Spread
- JL-17 Revised Natural Gas Schedule 101 Rate Design
- JL-18 Electric Customer-Related Costs

1 **II. REVISED ELECTRIC RATE SPREAD AND RATE DESIGN**

2
3 **Q. How have your electric rate spread and rate design recommendations**
4 **changed as a result of Mr. Dittmer’s and Mr. Lott’s rebuttal testimony?**

5 A. The changes are very small. In my direct testimony, I assumed an electric rate
6 increase of \$5.9 million, based on an assumption that the adjustments proposed by
7 ICNU would reduce the increase calculated by Mr. Dittmer by one-half.
8 Following the review of other party direct testimony, Mr. Dittmer is now
9 recommending an electric increase of \$6.4 million, very close to what I had
10 assumed in my direct testimony.

11 As a result of this change, the amount of revenue assigned to each class of
12 customers is slightly higher than my original proposal. The rate spread principles
13 remain the same – Schedules 11 and 21 receive a smaller-than-average increase,
14 and the balance is spread on an equal percentage basis across the remaining
15 classes. This is consistent with the cost of service results that I presented in my
16 direct testimony.

17 **Q. Which exhibits portray these changes?**

18 A. Exhibit No. ____ (JL-13) shows the revised rate spread between classes to
19 apportion a \$6.4 million increase. Exhibit No. ____ (JL-14) shows the revised
20 residential rates needed to recover the residential share of this increase. Exhibit
21 No. ____ (JL-15) shows the revised small general service rates needed to recover
22 the share of the increase attributable to this class.

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IV. ELECTRIC RATE DESIGN

Q. What are the principal differences between your proposed electric residential rate design and that presented by Avista and Staff?

A. My proposed rate design places the proposed increase on discretionary usage of electricity by residential customers, in the usage blocks above 600 kWh. The Avista and Staff rate design places the bulk of the increase on the smallest users of electricity. My rate design tracks Avista’s costs more accurately, and conveys the message that electricity is valuable and should not be wasted.

Q. On what basis do you conclude that the Avista/Staff proposal puts most of the increase on the early blocks of usage?

A. The table below shows how much of the increase comes from the customer charge and the first block. In the Avista/Staff proposal, 53% of the proposed residential rate increase is recovered in the essential needs block of consumption – the bill for the first 600 kWh. 47% is recovered in the discretionary blocks above 600 kWh. In the Public Counsel proposal, the essential needs block is exempt from the increase.

Table 3

Percentage of Total Increase on Each Rate Element

Rate Element	Avista/Staff Increase	Public Counsel Increase
Customer Charge	10%	0%
First 600 kWh	43%	0%
Next 700 kWh	28%	50%
Over 1300 kWh	19%	50%

1 **Q. What is the principal difference between your calculation above and that**
2 **relied on by the Company?**

3 A. The Company calculation includes many costs other than meters, services, meter
4 reading and billing. It includes significant costs in the customer service
5 (conservation and safety) area, plus overhead charges that do not vary directly
6 with the number of customers. My calculation is limited to the specific cost
7 elements previously identified by the Commission.

8 **Q. What do you conclude from this analysis?**

9 A. The customer charge should remain at \$5.00. It should not be increased. As I
10 indicated in my direct testimony, this rate increase is triggered primarily by rising
11 electricity supply costs for thermal power, and the rate increase should be focused
12 on that element of rates.

13 **Q. Turn now to the first rate block for power supply. What is the difference**
14 **between your proposal to leave it unchanged, and the Avista/Staff proposal?**

15 A. The Avista/Staff proposal places much of the proposed increase on the first 600
16 kWh of usage. My proposal places the (smaller) increase only on the end-blocks.
17 Because the Public Counsel proposed rate increase is smaller, even the rates for
18 usage above 600 kWh are less than what the Company and Staff are proposing.

19 **Q. Why is your proposal more appropriate?**

20 A. There are two reasons, both of which I touched on in my direct testimony. First
21 and foremost, the cost of Avista's hydropower has not increased significantly, and
22 those are the costs which should be reflected in the rate for the first 600 kWh.

1 Second, Avista's costs for supplemental thermal power – beyond the capability of
2 its older resources – *have* increased in cost, and those are the costs that should be
3 reflected in the rates for additional usage beyond the “basic needs” allowance of
4 600 kWh.

5 **Q. On what basis do you conclude that the 600 kWh block is served by**
6 **hydropower?**

7 A. Avista's hydroelectric resources provide about 3.5 billion kilowatt-hours per year.
8 In addition, it received hydropower under contract from the mid-Columbia
9 utilities. Altogether, Avista reports that 51.63% of their power supply is
10 hydroelectric power.³ Total residential sales in the test year are 2.2 billion kWh,
11 or an average of 981 kWh per month per customer. 51.6% of this is about 500
12 kWh per month. However, not all customers use 500 kWh every month, and
13 taking this into account, Avista could offer each customer about 550 kWh of
14 hydropower each month, and would not exceed its total hydropower supply,
15 taking into account those customers with low usage in some months. The bottom
16 line is that the overwhelming majority of the first residential block can be served
17 with low-cost hydropower.

18 **Q. What is the cost of that hydropower?**

19 A. The average cost in 2004 was is \$.01345 ~~less than two cents~~ per kilowatt-hour.
20 This compares to about \$.036 ~~four cents~~ for coal and other non-gas thermal
21 resources, and, ~~at current gas prices~~, about \$.1218 ~~six cents~~ for natural-gas fired

³ Utility Fuel Mix Report, Department of Community, Trade, and Economic Development, Page 7,
available at http://qa.cted.wa.gov/_CTED/documents/ID_2061_Publications.pdf

1 electricity. ~~from combined cycle plants like Coyote Springs and ten cents for~~
 2 ~~simple cycle units like Rathdrum.~~ If one thinks of the three rate blocks as
 3 approximately reflecting these three resource types, the difference in price for
 4 each block should be significantly greater than the current rate inversion of
 5 \$.016/kWh. Indeed, at current natural gas prices, the end-block rate recovers only
 6 about one-half of the cost of generating electricity using natural gas.

7 **Q. If one added average transmission and distribution costs to each type of**
 8 **power supply, how would the resulting rate blocks compare with current**
 9 **rates?**

10 A. The table below compares this, based on Avista's Response to Public Counsel
 11 Data Request No. 232. ~~the estimates of cost described above. We have asked~~
 12 ~~Avista to produce more precise power costs by fuel type in response to a data~~
 13 ~~request, and may add precision to this table when that is received.~~

14 **Table 5**
 15 **Approximate Average Cost of Delivered Power By Fuel Type (PC #23)**

	Hydro / First Block	Coal <u>WNP3/</u> <u>PURPA/</u> Second Block	Gas / Third Block
Production	\$.013452	\$.0364	\$.121806
Transmission ⁴	\$.0056	\$.0056	\$.0056
Distribution	\$.01252	\$.01252	\$.01252
Total	\$.03157812	\$.05412318	\$.1399207812
Current Rate By Block	\$.0452	\$.05761	\$.06167
Ratio of Price to Cost	143118%	10692%	4479%

⁴ Transmission and distribution costs from TLK-3, P. 2

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Q. Is it appropriate to add average transmission and distribution costs to each rate block, or are the distribution costs different for different levels of usage?

A. As I explained in my direct testimony, the initial block of residential usage serves primarily lights and appliances usage, while the upper blocks of usage serve primarily water heating and space conditioning load. Research by the Northwest Power Planning Council’s Regional Technical Forum (of which I am a member) and others indicates that the annual load factor for lights and appliances is much higher (~60%) than that for water heating (~40%) or for space conditioning (~20%). This means that the capacity investment for transmission and distribution is better utilized by the first block consumption than by the second or third block. If one were to calculate the cost to serve different load factors, as we did in the recent Puget Sound Energy rate proceeding, one would find that the capacity-related cost of space heating is on the order of three times the cost of lights and appliances usage. I presented this calculation at page 16 of my direct testimony, based on Avista’s general service rate analysis which is broken down by demand and energy costs.

Q. What is your conclusion from this analysis?

A. The cost of serving the upper blocks of residential usage is significantly greater than the current rates being applied to this usage. The result of this is that small-use customers, including most low-income consumers, are subsidizing larger users, primarily electric space heating customers.

Q. Why is this particularly inappropriate at the present time?

1 A. Electric heat customers face current natural gas prices only indirectly through
2 their electric bills, while gas heat customers see the effect of higher gas prices
3 immediately and directly through their gas bills. Gas provides only a portion of
4 the power supply, and the cost of hydropower and coal power do not “move with
5 the market” the way that gas does. Natural gas heating customers see the change
6 in gas prices for 100% of their usage. The very customers who would be
7 overcharged if the Company’s customer charge and first block rate were increased
8 are those who will *also* be facing a 25% increase in their natural gas bills (or, for
9 some, oil or propane bills) this winter.

10 **Q. How does your proposal address this equity concern?**

11 A. By applying the proposed rate to the second and third blocks, the Commission
12 will be sharing the pain more equitably this winter. Small use electric customers
13 will get a 25% increase on their gas bills, and no electric bill increase. Large
14 electric customers will get up to a 10% increase on their electric bills, but will not
15 face gas bills. The approach proposed by Avista/Staff would put a much larger
16 share of the burden on small-use electric customers.

17 **Q. Should your rate design proposal be applied even if the Commission accepts
18 a higher revenue requirement?**

19 A. Yes. Even at the Avista/Staff proposed revenue requirement, my proposed rate
20 design would more equitably allocate the limited hydropower on the Avista
21 system, and to ensure that gas heat customers do not subsidize electric heat
22 customers during this period of high natural gas prices.

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V. SUMMARY

Q. Please summarize your rebuttal testimony.

A. First, I have recalculated my original rate spread and rate design proposals based on the adjusted revenue requirements sponsored by Mr. Dittmer. The electric rates are shown in Exhibit No ____ (JL-13) through Exhibit No. ____ (JL-15). The gas rates are shown in Exhibit No. ____ (JL-16) through Exhibit No. ____ (JL-17).

Second, I have demonstrated conclusively that the proposed increase in the monthly electric customer charge is not justified by cost, since the customer-related costs on the Avista system come to less than \$5.00 per month, the current residential customer charge.

Third, I have demonstrated that the residential electric rate design proposal I have recommended --putting this increase on the second and third block of residential usage – is more cost-justified than the Company’s proposal.

Q. Does this conclude your rebuttal testimony?

A. Yes. This concludes my rebuttal testimony.