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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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

1		I. INTRODUCTION AND SUMMARY
2	Q.	Are you the same Jim Lazar who presented direct testimony in this
3		proceeding?
4	A.	Yes.
5		
6 7	Q.	What is the purpose of your rebuttal testimony?
8	А.	First, I have prepared revised electric rate spread and rate design exhibits, based
9		on the rebuttal electric revenue requirement presented by Mr. Dittmer.
10		Second, I have prepared revised natural gas rate spread and rate design
11		exhibits, based on the rebuttal natural gas revenue requirement presented by Mr.
12		Dittmer.
13		Finally, I respond to the electric rate design proposals contained in the
14		testimony filed by Staff and Avista. I show why the residential rate design I have
15		proposed is superior in terms of tracking costs and meeting Commission goals.
16	Q.	What rebuttal exhibits are you sponsoring?
17		
18	А.	I am sponsoring the following exhibits:
19		
20		JL-13 Revised Electric Rate Spread
21		JL-14 Revised Electric Residential Rate Design
22		JL-15 Revised Schedule 11 Rate Design
23		JL-16 Revised Natural Gas Rate Spread
24		JL-17 Revised Natural Gas Schedule 101 Rate Design
25		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	А.	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	А.	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.

1	Q.	Have you computed rates for the remaining classes?			
2	A.	No. Public Counsel does not have a position on large commercial or industrial			
3		rate design in this pro	ceeding.		
4	Q.	Please compare the o	class rate increases you are re	commending to those	
5		contained in the partial settlement submitted by Staff and Avista.			
6 7	A.	The table below compares the increases by class:			
8		Table 1			
9 10 11		Comparison of I	Proposed Electric Increase by	v Customer Class	
	Class		Avista/Staff Testimony ¹	Public Counsel Position	
	Desidential		0.00/	2 504	

Class	Avista/Staff Testimony ¹	Public Counsel Position
Residential	9.9%	2.5%
Small General Service	6.8%	1.7%
Large General Service	7.6%	1.9%
Extra Large Gen Service	9.2%	2.5%
Pumping Service	8.7%	2.5%
Street and Area Lights	8.7%	2.5%
Total System	8.7%	2.2%

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Q. Please compare the residential rates you have proposed to those submitted by

Avista and Staff in their partial settlement proposal.

A. The table below compares these rates.

Table 2

Comparison of Proposed Residential Rates

Rate Element	Avista/Staff Proposed	Public Counsel Proposed
	Base Rates Plus	Base Rates Plus
	ERM Surcharge	ERM Surcharge
Customer Charge	\$5.50	\$5.00
First 600 kWh	\$.05365	\$.05038
Next 700 kWh	\$.06391	\$.06181
Over 1300 kWh	\$.07646	\$.07579

9

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5 6 7

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10 As is evident, the Public Counsel proposal provides lower rates for all 11 customers at all usage levels, with the largest savings going to those customers 12 causing the least pressure on Avista's power supply and distribution system 13 needs. I have done this by adding columns (d) and (g) on Attachment C of the 14 Staff/Avista settlement proposal, and by adding Column (e) of that document to 15 the calculated base rates for the Public Counsel proposal. This is intended to 16 accurately compare rates with the ERM surcharge in both cases so it is an apples-17 to-apples comparison of rates customers would face.

¹ Figures are from Attachment C to the Settlement Agreement (at p.1, column j) and reflect an increase to base rates as well as an increase to all rates of 1% toward the ERM surcharge.

$\frac{1}{2}$		III. NATURAL GAS RATE SPREAD AND RATE DESIGN
23	Q.	Please describe how your rebuttal testimony differs from your direct
4		testimony with respect to natural gas rate spread and rate design.
5	A.	The differences are very small. In the direct testimony, the proposed gas rate
6		increase was \$218,000, or about 0.13% of total costs including gas costs. The
7		revised figure, provided by Mr. Dittmer, is a reduction of \$114,000, or about
8		.07% of total costs. Both are so small relative to the total cost of gas service that
9		there is almost no perceptible difference in the rate spread and rate design I
10		proposed in my direct testimony. Instead of the uniform percentage increase I
11		proposed in my direct testimony, my rebuttal exhibits reflect a uniform percentage
12		decrease.
13	Q.	If the difference between the proposed rates has not changed very much since
14		your direct testimony was submitted, what has changed significantly?
15	А.	The thing that has changed significantly is that Avista has submitted a natural gas
16		tracking increase that results in dramatically higher rates. The combination of the
17		general rate decrease at the level proposed by Public Counsel plus the Company's
18		proposed PGA increase results in an average increase in rates of about 25%. This
19		constitutes rate shock by any standard. In this case it is compounded on top of a
20		16% increase in gas rates in 2004 and an 11% increase in 2003. Assuming the
21		PGA is approved as filed, rates this winter will be about 90% higher than in the
22		winter of 2002-03.

1		IV. ELECTRIC RATE DESIGN
2	Q.	What are the principal differences between your proposed electricresidential
3		rate design and that presented by Avista and Staff?
4	А.	My proposed rate design places the proposed increase on discretionary usage of
5		electricity by residential customers, in the usage blocks above 600 kWh. The
6		Avista and Staff rate design places the bulk of the increase on the smallest users
7		of electricity. My rate design tracks Avista's costs more accurately, and conveys
8		the message that electricity is valuable and should not be wasted.
9	Q.	On what basis do you conclude that the Avista/Staff proposal puts most of
10		the increase on the early blocks of usage?
11	А.	The table below shows how much of the increase comes from the customer
12		charge and the first block. In the Avista/Staff proposal, 53% of the proposed
13		residential rate increase is recovered in the essential needs block of consumption -
14		the bill for the first 600 kWh. 47% is recovered in the discretionary blocks above
15		600 kWh. In the Public Counsel proposal, the essential needs block is exempt
16		from the increase.
17		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%

19

1	Q.	Please begin with the customer char	ge element of th	is. Why is your proposal
2		more accurate in reflecting costs?		
3	А.	The Commission ruled long ago on what costs properly belong in the "customer		
4		cost" category, stating:		
5 6 7 8 9		Costs such as meter reading, billing, the cost of meters and service drops, are properly attributable to the marginal cost of serving a single customer. ²		
10		and these total \$4.87 per customer per	month. The curr	ent customer charge is
11		\$5.00 per month, and there is no justifi	cation for increa	sing this amount to \$5.50.
12		The breakdown of these costs is computed in my Exhibit No(JL-18), and		
13		summarized as follows:		
14		Table	e 4	
15		Components of Avista C	ustomer-Related	d Costs
16		MetersServicesMeter ReadingBillingTotal Cost Per CustomerPer Month	\$.52 \$ 2.00 \$.60 \$1.75 \$4.87	
17 18	Q.	Have you calculated the return on m	eters and servic	ces at the Public Counsel
19		rate of return recommended by Mr.	Hill?	
20	А.	Yes. If I substitute the Avista/Staff rat	e of return, this a	amount rises to \$4.99, still
21		lower than the current customer charge	.	

² Cause U-89-2688-T, Third Supp. Order, P. 71

1	Q.	What is the principal difference between your calculation above and that
2		relied on by the Company?
3	А.	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	А.	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	А.	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	А.	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 – <i>have</i> 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	А.	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 <u>\$.036</u> four cents for coal and other non-gas thermal
21		resources, and, at current gas prices, about <u>\$.1218</u> 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	А.	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

Approximate Average Cost of Delivered Power By Fuel Type (PC #23)

	Hydro / First Block	Coal <u>WNP3/</u>	Gas / Third Block
		<u>PURPA/</u>	
		Second Block	
Production	\$.0 <u>134</u> 5 2	\$.0 <u>36</u> 4	\$. <u>1218</u> 06
Transmission ⁴	\$.0056	\$.0056	\$.0056
Distribution	\$.01252	\$.01252	\$.01252
Total	\$.03 <u>157<mark>812</mark></u>	\$.05 <u>412<mark>318</mark></u>	\$. <u>13992<mark>07812</mark></u>
Current Rate By	\$.0452	\$.05761	\$.06167
Block			
Ratio of Price to	<u>143<mark>118</mark>%</u>	<u>106<mark>92%</mark></u>	<u>44</u> 79%
Cost			

 $^{^{\}rm 4}$ Transmission and distribution costs from TLK-3, P. 2

1 2	Q.	Is it appropriate to add average transmission and distribution costs to each
3		rate block, or are the distribution costs different for different levels of usage?
4	А.	As I explained in my direct testimony, the initial block of residential usage serves
5		primarily lights and appliances usage, while the upper blocks of usage serve
6		primarily water heating and space conditioning load. Research by the Northwest
7		Power Planning Council's Regional Technical Forum (of which I am a member)
8		and others indicates that the annual load factor for lights and appliances is much
9		higher (~60%) than that for water heating (~40%) or for space conditioning
10		$(\sim 20\%)$. This means that the capacity investment for transmission and
11		distribution is better utilized by the first block consumption than by the second or
12		third block. If one were to calculate the cost to serve different load factors, as we
13		did in the recent Puget Sound Energy rate proceeding, one would find that the
14		capacity-related cost of space heating is on the order of three times the cost of
15		lights and appliances usage. I presented this calculation at page 16 of my direct
16		testimony, based on Avista's general service rate analysis which is broken down
17		by demand and energy costs.
18	Q.	What is your conclusion from this analysis?
19	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 smalluse customers, including most low-income consumers, are subsidizing larger
users, primarily electric space heating customers.

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

1	А.	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.

1		V. SUMMARY
2	Q.	Please summarize your rebuttal testimony.
3	A.	First, I have recalculated my original rate spread and rate design proposals based
4		on the adjusted revenue requirements sponsored by Mr. Dittmer. The electric
5		rates are shown in Exhibit No (JL-13) through Exhibit No (JL-15). The
6		gas rates are shown in Exhibit No (JL-16) through Exhibit No (JL-17).
7		Second, I have demonstrated conclusively that the proposed increase in
8		the monthly electric customer charge is not justified by cost, since the customer-
9		related costs on the Avista system come to less than \$5.00 per month, the current
10		residential customer charge.
11		Third, I have demonstrated that the residential electric rate design proposal
12		I have recommendedputting this increase on the second and third block of
13		residential usage – is more cost-justified than the Company's proposal.
14	Q.	Does this conclude your rebuttal testimony?
15	А.	Yes. This concludes my rebuttal testimony.