

Exhibit No. ___ (CTM-1T)
Dockets UE-140188/UG-140189
Witness: Christopher T. Mickelson

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

AVISTA CORPORATION,

Respondent.

DOCKETS UE-140188 and
UG-140189
(Consolidated)

TESTIMONY OF

CHRISTOPHER T. MICKELSON

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Electric Cost of Service, Revenue Allocation, and Rate Design
Natural Gas Cost of Service, Revenue Allocation, and Rate Design

July 22, 2014

Revised July 31, 2014 (pp 4, 6, 33-34, 64-65, 67, 69-70)

1 A. Staff makes multiple recommendations for classifying and allocating capital
2 investments and operating expenses. The principle difference between Staff's cost
3 of service studies and Avista's are the classifying and allocating of: (1) general plant
4 costs and administrative and general ("A&G") expenses; (2) production costs; (3)
5 transmission costs; and (4) wind costs. For both general plant costs and A&G
6 expenses, Staff uses the Company's blended 4-part factor allocator. For production
7 costs, Staff uses the average and excess demand method, with the excess allocated on
8 the basis of non-coincident peak demand. For transmission costs, Staff applies a 12
9 coincidental peak and average method. For wind costs, Staff used 100 percent
10 generating level consumption. In addition, Staff recommends creating a new
11 schedule, Schedule 26, for ultra large usage customers.

12 Staff did not use the Company's electric cost of service study because that
13 study did not reasonably or fairly functionalize, classify, and allocate capital
14 investments and operating expenses to each rate schedule.

15 With respect to revenue allocation, Staff proposes a rate spread that is
16 consistent with Staff's cost of service study results and principles of cost causation.
17 Staff recommends General Schedules 11 and 12 receive a ~~5.00~~ 4.74 percent
18 decrease, Large General Schedules 21 and 22 receive a ~~2.15~~ 2.27 percent decrease,
19 Extra-Large General Schedule 25 receives a ~~2.29~~ 2.43 percent decrease, while newly
20 created Ultra-Large General Schedule 26 receives a ~~5.40~~ 4.67 percent decrease, and
21 all other Schedules receive no change to their revenue requirements.

22 As for electric rate design, Staff recommends the Commission increase the
23 basic monthly customer charge to \$8.50 to better reflect the customer-specific fixed

1 The differences in classifying and allocating of costs leads Staff to
2 recommend a revenue allocation different from the equal percentage proposed by the
3 Company. Staff recommends General Service (Residential) Schedule 101 receives a
4 ~~6.2~~ 6.1 percent increase, Transportation Schedule 146 receives a ~~17.2~~ 14.4 percent
5 increase, ~~Interruptible Schedules 131 and 132 receive a 2.7 percent increase~~, and all
6 other Schedules receive no change to their revenue requirements.

7 As for natural gas rate design, Staff recommends the Commission increase
8 the monthly customer charge to ~~\$8.92~~ \$11.74 to better reflect the customer-specific
9 fixed costs Avista incurs, decrease the volumetric rates for Schedules 111, 112, 121,
10 and 122, and apply a split of 50/50 of the Transportation Schedule's revenue
11 requirement to the customer charge and volumetric rates.

12
13 **Q. Do you sponsor any exhibits in support of Staff's recommendations?**

14 **A.** Yes, I sponsor the following exhibits in support of my testimony:

- 15 • Exhibit No. ____ (CTM-2), Electric Cost of Service
- 16 • Exhibit No. ____ (CTM-3), Electric Revenue Allocation and Rate Design
- 17 • Exhibit No. ____ (CTM-4), Electric Cost Classifications and Allocations
- 18 • Exhibit No. ____ (CTM-5), Natural Gas Cost of Service
- 19 • Exhibit No. ____ (CTM-6), Natural Gas Revenue Allocation and Rate Design
- 20 • Exhibit No. ____ (CTM-7), Natural Gas Cost Classifications and Allocations
- 21 • Exhibit No. ____ (CTM-8), Allocation of Natural Gas Distribution Mains

1 preserve or even exacerbate the inequities between rate schedules. To help get all
2 schedules within the target range, or even parity, the Commission could direct the
3 Company to reduce the imbalances between rate schedules by half for each general
4 rate case. That way, within two or three general rate case filings, the imbalances
5 would be eliminated.

6 7 V. ELECTRIC REVENUE ALLOCATION

8
9 **Q. Please explain the general concept of revenue allocation.**

10 A. Revenue allocation, also known as “rate spread,” is the process of determining the
11 portion of total revenues to be collected from each rate schedule.

12
13 **Q. What is Staff’s recommendation on revenue allocation for electric service?**

14 A. Based on Staff’s recommended overall revenue decrease of ~~4.71~~ 1.68 percent, and in
15 order to move all Schedules closer to parity, Staff recommends the following:

- 16 • Schedule 1, Residential: no change to revenues.
- 17 • Schedules 11 and 12, General Service: decrease ~~5.00~~ 4.74 percent.
- 18 • Schedules 21 and 22, Large General Service: decrease ~~2.15~~ 2.27 percent.
- 19 • Schedule 25, Extra Large General Service: decrease ~~2.29~~ 2.43 percent.
- 20 • Schedule 26, Ultra Large General Service: decrease ~~5.40~~ 4.67 percent.
- 21 • Schedule 30-32, Pumping: no change to revenues.
- 22 • Schedule 41-48, Street & Area Lighting: no change to revenues.

1 **Q. Please explain why Schedules 1, 30, 31, 32, and 41 through 48 get no decrease,**
2 **while Schedules 11, 12, 21, 22, 25 and 26 get a decrease.**

3 A. Staff proposes a gradual move toward parity for those schedules that are outside the
4 0.95 to 1.05 range. Therefore, Staff applied a much more than average decrease to
5 those schedules that have a parity ratio above 1.05, and no decrease to revenues for
6 schedules that have a parity ratio less than 0.95, or even within the target range.

7

8 **Q. By comparison, what rate increases or decreases would be required to move**
9 **each rate schedule to parity?**

10 A. To reach parity at existing rates, the following approximate rate changes would be
11 required:

- 12 • Residential Schedule 1: ~~14.9~~ 13.3 percent rate increase.
- 13 • General Service Schedules 11 and 12: ~~18.8~~ 21.2 percent rate decreases.
- 14 • Large General Service Schedules 21 and 22: ~~15.5~~ 13.7 percent rate decreases.
- 15 • Extra Large General Service Schedule 25: ~~10.3~~ 7.7 percent rate decrease.
- 16 • Ultra Large General Service Schedule 26: ~~15.1~~ 12.6 percent rate decrease.
- 17 • Pumping Schedules 30 through 32: ~~5.0~~ 10.2 percent rate increases.
- 18 • Street and Lighting Schedules 41 through 48: ~~2.5~~ 5.4 percent rate increases.

19

20 **Q. Have you prepared a table showing the results of Staff's revenue allocation**
21 **proposal?**

22 A. Yes. Table 2 below shows the results of Staff's revenue allocation proposal
23 compared to current revenue allocation under Staff's classification and allocation

1 **Q. Is any other Commission-regulated utility currently evaluating Special**
2 **Contracts as a separate item in the cost of service study and rate design?**

3 A. Yes. PSE currently runs its cost of service and rate design with Special Contracts
4 represented as a distinct schedule (or column) within both its electric and gas
5 models.⁵⁷ PSE shows the parity ratios for Special Contracts customers, and adjusts
6 the Special Contracts accordingly to ensure Special Contracts customers share the
7 cost of the system and pay their fair share of the costs they impose on the system.
8 Avista should do no less.

9
10 **VIII. NATURAL GAS REVENUE ALLOCATION**

11
12 **Q. What is Staff's recommendation on revenue allocation for gas service?**

13 A. Based on Staff recommended overall gas revenue increases of ~~4.77~~ 4.42 percent, and
14 in order to move gas rate schedules closer to parity, Staff recommends the following
15 increases:

- 16 • Schedule 101, General Service: increase ~~6.2~~ 6.1 percent.
- 17 • Schedules 111 and 112, Large General Service: no change to revenues.
- 18 • Schedules 121 and 122, Extra Large General Service: no change to revenues.
- 19 • Schedules 131 and 132, Interruptible: ~~increase 2.7 percent~~ no change to revenues.
- 20 • Schedule 146, Transportation: increase ~~17.2~~ 14.4 percent.

21

⁵⁷ For Dockets UE-111048 and UG-111049, see Piliaris Direct, Exhibit No. ____ (JAP-1T), and Phelps Direct, Exhibit No. ____ (JKP-1T).

1 **Q. Please explain why Schedules 101 and 146 should receive a higher than average**
2 **increase, while Schedules 111, 112, 121, and 122 should receive no increase.**

3 A. Because Schedule 146 is not part of the decoupling mechanism, Staff believed this
4 schedule needed to reach parity to make sure there are no cross-subsidies between
5 schedules before the decoupling mechanism could be layered on to base rates. While
6 the increase seems extraordinary, one must recall the basis of the increase is only
7 delivery system costs with no actual gas. With an imputed level of gas included, the
8 increase would be 8.5 percent.

9 For the same reasons explained earlier in my discussion of electric revenue
10 allocation as applied to Schedule 101, moderate rate changes are more reasonable
11 and represent a gradual approach to address parity imbalances.

12
13 **Q. By comparison, what rate increases or decreases would be required to move**
14 **each rate schedule to parity?**

15 A. To reach parity at existing rates, the following approximate rate changes would be
16 required:

- 17 • General Service (Residential) Schedule 101: ~~8.0~~ 8.1 percent rate increases.
- 18 • Large General Service Schedules 111 and 112: ~~5.1~~ 5.4 percent rate decreases.
- 19 • Extra Large General Service Schedules 121 and 122: ~~6.4~~ 9.3 percent rate decrease.
- 20 • Interruptible Schedules 131 and 132: ~~2.7~~ 1.1 percent rate ~~increase~~ decrease.
- 21 • Transportation Schedule 146: ~~17.2~~ 14.4 percent rate increases.

22

23 **Q. How are the parity ratios affected by your proposed percentage increases?**

1 A. Staff proposes to use rate year billing determinants⁵⁸ to reflect Staff witness Mr.
2 McGuire's recommendation for growth rates within the attrition study.⁵⁹ Staff also
3 proposes to: (1) increase the monthly customer charges to include more fixed costs;
4 (2) decrease volumetric rates for Schedules 111, 112, 121, and 122; and (3) apply a
5 split of 50/50 of the Transportation Schedule's revenue requirement to the customer
6 charge and volumetric rates.

7

8 **A. General Service (Residential) Rates**

9

10 **Q. What rate design does Staff propose for the monthly customer charge, given**
11 **Staff's lower recommend revenue requirement?**

12 A. Staff proposes to increase the monthly customer charge to reflect the costs that are
13 fixed and that vary with the number of customers. For the same reasons I explained
14 earlier in my discussion of electric rate design, these costs vary by the number of
15 customers rather than usage. Therefore, it is appropriate for the Company to recover
16 these costs in the basic charge rather than usage charges. Accordingly, Staff
17 proposes that the monthly customer charge for General Service Schedule 101
18 increase from \$8.00 to ~~\$8.92~~ \$11.74. The development of this figure is below the
19 minimum customer-related costs of \$11.75 shown in my Exhibit No. ____ (CTM-5),
20 page 4, and line 29.

21

⁵⁸ Avista response to Staff Data Request 24, Attachment B.

⁵⁹ McGuire Direct, Exhibit Nos. ____ (CRM-1T) and ____ (CRM-3).

1 **B. Large and Extra Large General Service**

2

3 **Q. What is Staff's natural gas rate design proposal for Schedules 111, 112, 121, and**
4 **122?**

5 A. Due to rate year billing determinants growth rates, Staff recommends revenue-
6 neutral changes in rate design to implement a uniform decrease to volumetric rates
7 for Schedules 111, 112, 121, and 122. Staff's reason for the decrease is to recognize
8 the increase in rate year billing determinant, which shows large load growth
9 compared to the last general rate case in 2012.

10

11 **C. Transportation Rates**

12

13 **Q. How did Staff apply the revenue increase to Transportation Schedule?**

14 A. Staff applied a split of 50/50 of the schedule's revenue requirement to the customer
15 charge and volumetric rates. This would increase the customer charge for
16 Transportation Schedule 146 from \$400.00 to \$500.00; and apply a flat rate increase
17 of ~~0.5065~~ 0.9649 cents to all present block rates.

18

19 **Q. Why did Staff use that approach?**

20 A. First, it did not make common sense to Staff for transportation customers to pay
21 lower monthly customer charges and volumetric rates compared to large general
22 service customers under current rates, who are paying more than their cost of service,
23 and who would be part of a decoupling mechanism.

1 Second, applying a split of 50/50 of the schedule's revenue requirement to
2 the customer charge and volumetric rates would be fair and equitable to all
3 transportation customers because they all share an equal portion of the increase in
4 customer charge and each have the opportunity to reduce their delivery system costs.

5 Next, these customers are not part of the decoupling mechanism, but Staff
6 wanted to limit any intra-schedule subsidies.

7 Finally, it appears the five block rate design structure is no longer providing
8 proper price signals since 67.8 percent of usage falls within the first two blocks, and
9 95.8 percent of usage falls within the third block on this schedule.⁶⁰ Thereby
10 applying a flat cent increase will reduce the rate differential between blocks and
11 allow gradualism for Staff's next recommendation in a following general rate case of
12 eliminating or shifting usage blocks or applying a straight-fixed variable rate design
13 similar to electric Schedules 25 and 26 for these customers.

14
15 **D. Interruptible Rates**

16
17 **Q. What is Staff's natural gas rate design proposal for Schedules 131 and 132?**

18 A. Due to rate year billing determinants growth rates, Staff recommends a uniform
19 decrease to volumetric rates for Schedules 131, and 132. Staff's reason for the
20 decrease is to recognize the increase in rate year billing determinant, which shows
21 large load growth compared to the last general rate case in 2012, ~~even with~~
22 ~~recognizing the 2.7 percent increase to revenues.~~

⁶⁰ Avista response to Staff Data Request 18.