

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NOS. UE-120436 & UG-120437

DOCKET NOS. UE-110876 & UG-110877

JOINT DIRECT TESTIMONY OF

KELLY O. NORWOOD (AVISTA)  
KENNETH L. ELGIN (STAFF)  
MICHAEL C. DEEN (ICNU/NWIGU)  
CHARLES M. EBERDT (ENERGY PROJECT)

IN SUPPORT OF  
MUTLIPARTY SETTLEMENT STIPULATION

**I. INTRODUCTION**

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**Q. Please state your names, titles, and the party you represent in this matter.**

- A. Our names, titles, and representation are as follows:
- Kelly O. Norwood, Vice-President of State and Federal Regulation, Avista
  - Kenneth L. Elgin, Senior Financial Analyst, UTC Staff
  - Michael C. Deen, Regulatory & Cogeneration Services, Inc., representing Industrial Customers of Northwest Utilities (ICNU) and Northwest Industrial Gas Users (NWIGU)
  - Charles M. Eberdt, Director, The Energy Project

**Q. Are you sponsoring Joint Testimony in support of the Multiparty Settlement Stipulation filed with this Commission on October 19, 2012?**

A. Yes. This Joint Testimony of the Settling Parties (identified above) recommends approval of the Multiparty Settlement Stipulation by the Commission. The Multiparty Settlement Stipulation represents a compromise among differing points of view. Concessions were made by the Settling Parties to reach a reasonable balancing of interests. As will be explained in the following testimony, the Settlement Stipulation received significant scrutiny and is supported by sound analysis and sufficient evidence. Its approval is in the public interest. The Settlement Stipulation has been marked as Exhibit A.

**Q. What is the scope of your testimony?**

A. This Joint Testimony addresses Avista's general rate case filings in these dockets and the scope of the Settlement and its principal aspects. It also includes a statement of the Settling Parties' views about why the Settlement satisfies their interests and the public interest, as well as any legal points that bear on the proposed Settlement.

1           **Q.     Would you briefly summarize the Settlement Stipulation?**

2           A.     Yes. As part of the Settlement Stipulation, the Settling Parties agree that,  
3 effective with service on and after January 1, 2013, Avista shall be authorized to  
4 implement base rate changes designed to increase its annual revenues from Washington  
5 electric customers by \$13.650 million (or 3.0 percent on average), and from Washington  
6 natural gas customers by \$5.300 million (or 3.7 percent on average). The Settling Parties  
7 agree that a credit of \$4.400 million will be returned to electric customers to mitigate the  
8 2013 rate increase from the existing Energy Recovery Mechanism (ERM) deferral balance  
9 such that the net overall electric rate increase impact to customers in 2013 will be 2.0  
10 percent on average.

11           Further, the Settling Parties agree that, effective with service on and after January 1,  
12 2014, Avista shall be authorized to implement base rate changes designed to increase its  
13 annual revenues from Washington electric customers by \$14.038 million (or 3.0 percent on  
14 average), and from Washington natural gas customers by \$1.400 million (or 0.9 percent on  
15 average). The Settling Parties agree that \$9.000 million will be returned to electric  
16 customers to mitigate the 2014 rate increase from the then-existing ERM deferral balance,  
17 if such funds are available, such that the average bill impact to customers effective January  
18 1, 2014 would be 2.0% on average.

19           For the base rate change effective January 1, 2014, Avista will file conforming  
20 tariffs by October 1, 2013. Avista will include in its tariff transmittal letter a statement of  
21 the ERM balances existing at that time, by year, and the 2013 ERM balance to date.

1           The Settlement Stipulation, as agreed-upon by the Settling Parties, also calls for an  
2 overall rate of return of 7.64%, with a common equity ratio of 47.0 percent and a return on  
3 equity of 9.8 percent.

4           The Settling Parties have explicitly not agreed to a specific attrition allowance,  
5 but have taken into account the respective litigation positions of the parties in reaching  
6 this agreement.

7           Also, as part of the Settlement Stipulation, the Parties agree to adjust the LIRAP  
8 portion of the tariff riders (Schedules 91 and 191) to provide an increase in 2013 funding of  
9 \$176,000 to direct low-income energy bill (rate) assistance and an additional \$131,000  
10 increase in 2014. With this increase, the 2013 funding level for electric low income  
11 customers would be approximately \$3.8 million, and approximately \$1.8 million for  
12 natural gas low income customers. In 2014, the funding level for electric low income  
13 customers would be approximately \$3.9 million, and approximately \$1.9 million for  
14 natural gas low income customers. Appendix 3 of the Settlement Stipulation included as  
15 Exhibit A, pages 5 (electric) and 9 (natural gas), identify the tariff rider adjustments to  
16 Schedules 91 and 191 (in ¢/kWh and ¢/therm), to reflect increased levels of funding for  
17 LIRAP.

18           **Q.     Who are the signatories to the Multiparty Settlement Stipulation?**

19           A.     The Multiparty Settlement Stipulation, filed October 19, 2012, coincident  
20 with this Joint Testimony, was signed by Avista, the UTC Staff, the Industrial Customers  
21 of Northwest Utilities, the Northwest Industrial Gas Users, and the Energy Project. These  
22 identified parties consist of all parties who have intervened and participated in the above  
23 dockets, with the exception of the Public Counsel Section of the Washington Office of

1 Attorney General (“Public Counsel”) and the NW Energy Coalition (“NWEC” and/or the  
2 “Coalition”). The Coalition, although not a party to the Settlement Stipulation, has  
3 indicated that it does not intend to oppose the Settlement but reserves the right to request  
4 continued litigation of the electric decoupling issue in these consolidated dockets. They do  
5 not oppose the implementation of settlement rates, however, beginning on January 1, 2013.

6 **Q. What is the proposed effective date of the Settlement?**

7 A. The Settling Parties have requested implementation of the Settlement  
8 Stipulation on January 1, 2013. This proposed effective date is an “integral” part of the  
9 Settlement and was one of the trade-offs among the concessions made on a variety of  
10 issues by the Settling Parties.

11 **Q. What was agreed to regarding to the next general rate case that Avista**  
12 **will file?**

13 A. The Company has agreed to a “stay-out” provision under which it will not  
14 file a general rate case in Washington that seeks to implement a base rate increase that  
15 would become effective before January 1, 2015. This means Avista could file a general  
16 rate case before January 1, 2015; however, the tariffs would not become effective sooner  
17 than January 1, 2015. This does not apply to tariff filings authorized by or contemplated by  
18 the terms of the Energy Recovery Mechanism (ERM), Purchased Gas Adjustment (PGA),  
19 Public Purpose Rider Adjustment (DSM/LIRAP) or similar adjustments.

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21 **II. QUALIFICATIONS OF WITNESSES**

22 **Q. Mr. Norwood, please provide information pertaining to your**  
23 **educational background and professional experience.**

1           A.     My name is Kelly O. Norwood. I am employed by Avista Utilities as the  
2 Vice-President of State & Federal Regulation. I am a graduate of Eastern Washington  
3 University with a Bachelor of Arts Degree in Business Administration, majoring in  
4 Accounting. I joined the Company in June of 1981. Over the past 31 years, I have spent  
5 approximately 20 years in the Rates Department with involvement in cost of service, rate  
6 design, revenue requirements and other aspects of ratemaking. I spent approximately 11  
7 years in the Energy Resources Department (power supply and natural gas supply) in a  
8 variety of roles, with involvement in resource planning, system operations, resource  
9 analysis, negotiation of power contracts, and risk management. I was appointed Vice-  
10 President of State & Federal Regulation in March 2002.

11           **Q. Mr. Elgin, please provide information pertaining to your educational**  
12 **background and professional experience.**

13           A.     I received a Bachelor of Arts from the University of Puget Sound in 1974 and  
14 a Master of Business Administration from Washington State University in 1980. I have  
15 been employed by the Commission in several different capacities since 1985. During my  
16 twenty-eight years of experience working on energy and financial issues, I have developed  
17 a thorough working knowledge of both the operational and financial profiles of  
18 jurisdictional energy utilities. I have served in a multitude of capacities, including the  
19 Assistant Director for Energy, and Case Strategist for the Regulatory Services Division  
20 where I consulted with or represented Staff on all aspects of contested energy cases  
21 presented to the Commission. In 2010 my new assignment as a Senior Financial Analyst  
22 began. Finally, I am responsible for the analysis of all filings with the Commission

1 pursuant to Chapter 80.08 RCW, which involves securities issued by public service  
2 companies.

3 **Q. Mr. Deen, please provide information pertaining to your educational**  
4 **background and professional experience.**

5 A. My name is Michael Deen and I am a member of Regulatory &  
6 Cogeneration Services, Inc. (“RCS”), a utility rate and economic consulting firm. My  
7 business address is 900 Washington Street, Suite 780, Vancouver, Washington 98660. I  
8 have been involved in the utility industry for about 6 years. During that time, I have served  
9 as an analyst and expert on a variety of matters including revenue requirement, cost-of-  
10 service, rate spread and rate design, primarily regarding the Bonneville Power  
11 Administration and other utilities in the Pacific Northwest. I have testified before the  
12 Washington Utilities and Transportation Commission (“WUTC”) in proceedings related to  
13 Puget Sound Energy, Avista, and PacifiCorp.

14 **Q. Mr. Eberdt, please provide information pertaining to your educational**  
15 **background and professional experience.**

16 A. My name is Charles M. Eberdt. I am the Director for The Energy Project.  
17 The Energy Project represents the interests of the various entities that serve Washington  
18 State with the federal funded Weatherization Assistance Program and the Low Income  
19 Home Energy Assistance Program in energy matters before the Commission and with  
20 utilities and other state agencies. I have an M.A.T. from Harvard University. Since 1993, I  
21 have been working with all agencies that provide energy assistance and energy efficiency  
22 services to low-income households in Washington. Prior to that I supervised training on  
23 energy efficient construction for building code officials and builders for the Washington

1 State Energy Office and provided other public education on energy efficiency. I am a  
2 Board member of the National Center for Appropriate Technology and A World Institute  
3 for a Sustainable Humanity (A.W.I.S.H.). I have participated in several proceedings before  
4 this Commission over the last 19 years.

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### **III. SETTLEMENT PROCESS**

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**Q. Would you please describe the process that led to the filing of the  
Settlement Stipulation?**

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A. Yes. Representatives of all Parties appeared at Settlement Conferences held  
on August 27, 2012 and October 3, 2012, which were held for the purpose of narrowing or  
resolving the contested issues in this proceeding. Subsequent discussions led to this  
Multiparty Settlement Stipulation.

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Extensive discussions occurred on many components of the Company's filing, such  
as the cost of capital, attrition and various expense items. The parties engaged in the "give-  
and-take" that characterizes settlement discussions and attempted to arrive at a reasonable  
balance of differing interests. Each of the Settling Parties ultimately agreed to concessions  
on matters which would not have been agreed to if each of the Settling Parties were to  
proceed to evidentiary hearings.

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Significant discovery occurred in the four months leading to the Settlement  
Conference. The Company responded to approximately 900 data requests and provided the  
responses to all parties.



1 **IV. REVENUE REQUIREMENT**

2 **Q. Please explain the proposed Electric and Natural Gas Revenue**  
3 **Requirement increases agreed to by the Settling Parties.**

4 A. The Settling Parties agreed to increases in Washington base rates to be  
5 implemented on January 1, 2013, and January 1, 2014, for both electric and natural gas  
6 customers as described below.

7 For 2013, the Company shall implement base rate changes designed to increase its  
8 annual revenues from Washington electric customers by \$13.650 million (or 3.0 percent on  
9 average), and from Washington natural gas customers by \$5.300 million (or 3.7 percent on  
10 average). The Settling Parties agree that a credit of \$4.400 million will be returned to  
11 electric customers to mitigate the 2013 rate increase from the existing Energy Recovery  
12 Mechanism (ERM) deferral balance such that the net overall electric rate increase impact to  
13 customers will be 2.0 percent on average<sup>1</sup>.

14 Further, the Settling Parties agree that, effective with service on and after January 1,  
15 2014, Avista shall be authorized to implement base rate changes designed to increase its  
16 annual revenues from Washington electric customers by \$14.038 million (or 3.0 percent on  
17 average), and from Washington natural gas customers by \$1.400 million (or 0.9 percent on  
18 average). The Settling Parties agree that \$9.000 million will be returned to electric  
19 customers to mitigate the 2014 rate increase from the then-existing ERM deferral balance,

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<sup>1</sup> The ERM deferral balance for 2011, approved by the Commission in Docket UE-120432, is \$12.8 million in the rebate to customer's direction. The ERM deferral balance for the January to September 2012 period is \$6.3 million in the rebate to customer direction. A total of \$4.202 million of the \$12.8 million 2011 ERM balance will be credited to customers during 2013. The benefit to customers of this credit, including revenue-related adjustments, is \$4.400 million.

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1 if such funds are available, such that the average bill impact to customers effective January  
2 1, 2014 would be 2.0% on average<sup>2</sup>.

3 For the base rate change effective January 1, 2014, Avista will file conforming  
4 tariffs by October 1, 2013. Avista will include in its tariff transmittal letter a statement of  
5 the ERM balances existing at that time, by year, and the 2013 ERM balance to date.

6 **Q. Please explain the Settling Parties' agreement in regards to the Rate of**  
7 **Return, including the Return on Equity.**

8 **A.** The Settling Parties agree to an overall Rate of Return of 7.64%, which  
9 includes a 9.8 percent return on equity, with a 47.0 percent common equity ratio. The  
10 individual cost of capital components of the agreed upon rate of return are set forth in  
11 Table 1 below:

12 **Table 1 – Agreed Upon Cost of Capital**

<b>Agreed-Upon Cost of Capital</b>			
	<b>Percent of Total Capital</b>	<b>Cost</b>	<b>Component</b>
<b>Total Debt</b>	<b>53.00%</b>	<b>5.72%</b>	<b>3.03%</b>
<b>Common Equity</b>	<b>47.00%</b>	<b>9.80%</b>	<b>4.61%</b>
<b>Total</b>	<b>100.00%</b>		<b>7.64%</b>

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<sup>2</sup> Effective January 1, 2014, the ERM offset of \$4.400 million for 2013 will expire, and will be replaced by a new ERM offset of \$9.000 million. The reduction to the ERM balance associated with this \$9.000 million credit to customers (which includes revenue-related adjustments) is \$8.596 million. ERM deferral dollars will be used on a first-in, first-out (FIFO) basis from 2011 and 2012.

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**V. OTHER SETTLEMENT COMPONENTS**

**Q. Included in the Settlement Stipulation are various other components agreed-upon by the Settling Parties. Please explain the “Depreciation Rates” component agreed to?**

A. The Settling Parties agreed to accept, allowing the Company to implement effective January 1, 2013, the updated electric and natural gas depreciation rates, including for transportation equipment, as provided within the Depreciation Study filed by the Company.

**Q. Please now explain the ERM related components agreed-upon by the Settling Parties?**

A. Yes. The Settling Parties agreed to the following ERM related components:  
ERM Structure: There will be no changes to the current ERM deadband or sharing bands. The rate adjustment trigger, currently set at 10% of base revenues<sup>3</sup> (or approximately \$45 million at current base rates), will be changed to be a \$30 million dollar threshold. If the deferrals in the ERM reach \$30 million, the Company will either surcharge or rebate the balance to customers. Finally, the Parties have agreed that the Retail Revenue Credit will be determined based on only the energy classified portion of the fixed and variable production and transmission revenue requirement, as further explained by the Company in its original filing.

ERM Authorized Amounts: For purposes of calculating the monthly ERM entries beginning January 1, 2013, Appendix 1 to the Stipulation sets forth the agreed-upon

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<sup>3</sup> Settlement Stipulation approved by the Fifth Supplemental Order in Docket UE-011595.  
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1 level of the power supply revenues, expenses, retail load, and retail revenue credit  
2 resulting from this Stipulation. These power supply revenues and expenses include  
3 the costs and benefits associated with the Palouse Wind Project, which has been  
4 found by the Settling Parties to be prudent. It includes updated natural gas costs and  
5 short-term contracts as well, which were taken into account when arriving at the  
6 agreed-upon electric revenue requirement.

7 Renewable Energy Credit (REC) Revenues: Beginning on January 1, 2013, Avista  
8 will track separately and defer 100 percent of all REC revenues, over that which is  
9 included in base rates. This deferral will be for the benefit of customers and not  
10 subject to any deadband or sharing percentage. The deferred REC revenue will  
11 accrue interest consistent with other ERM balances.

12 **Q. Please now explain all decoupling related components agreed-upon by**  
13 **the Settling Parties?**

14 A. The following electric and natural gas decoupling components were agreed-  
15 upon by the Settling Parties:

16 Natural Gas Decoupling Baseline and Application: Pursuant to the Commission's  
17 order initially adopting the Avista decoupling pilot, In Re Petition of Avista Corp.,  
18 Order 04, Docket UG-060518, paragraph 49, the baseline for the natural gas  
19 decoupling mechanism has been updated so as to use the test year employed in this  
20 rate case proceeding. The update of the baseline is reflected in Exhibit A, Appendix  
21 2. The Settling Parties agree that Schedule 159 shall continue in effect for Avista's  
22 natural gas customers with the update of the baseline reflected in Exhibit A,  
23 Appendix 2. The Settling Parties agree that, given the new rate design for Schedule

1 101 as discussed in Section 19 of Exhibit A, the margin rate for purposes of  
2 determining deferrals under the mechanism will be the weighted average block rate,  
3 as shown on Page 1 of Exhibit A, Appendix 2.

4 Electric Decoupling: The issue of electric decoupling for Avista was introduced by  
5 NWECA in Dockets UE-110876 and UG-110877, and later consolidated with these  
6 pending rate case dockets. The Settling Parties have agreed that, if the NWECA  
7 otherwise seeks continued litigation in these dockets to resolve the issue related to  
8 electric decoupling, Avista will not support adoption of such a mechanism in these  
9 dockets, nor will it seek to implement such a mechanism prior to its next general  
10 rate case. Each of the Settling Parties agrees not to support the implementation of  
11 electric decoupling for Avista prior to January 1, 2015.

12 **Q. With regards to Avista’s currently authorized deferred accounting**  
13 **treatment for maintenance costs of Colstrip Units 3 and 4 and Coyote Springs 2,**  
14 **please explain what the Settling Parties agreed to?**

15 A. Related to the “Deferred Accounting for Maintenance Costs of Colstrip and  
16 Coyote Springs 2” component, the Settling Parties agree that the deferral mechanism  
17 related to annual maintenance costs associated with Colstrip Units 3 and 4 and Coyote  
18 Springs 2, which was approved by the Commission in Docket UE-110876, will terminate  
19 December 31, 2012. Consistent with Docket UE-110876, there will be a four-year  
20 amortization of the 2011 and 2012 deferred amounts, as proposed by Staff.

21 **Q. Please now explain, with regards to the Aldyl-A replacement program,**  
22 **what Avista has agreed to do.**

1           A.     Avista has agreed, commencing January 1, 2013, that it will track separately  
2 all Aldyl-A replacement program projects, ensuring data related to the Aldyl-A  
3 replacement program will be available for future review by the Commission.

4           **Q.     Lastly, please explain the provision in the Settlement related to**  
5 **Allocation Methods.**

6           A.     Avista has agreed, in its next general rate case that it will provide  
7 justification for the service and jurisdictional cost allocation methodologies that it employs.

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**VI. RATE SPREAD/RATE DESIGN**

10           **Q.     Where in the Stipulation is the information related to rate spread and**  
11 **rate design provided?**

12           A.     Section III, Subsection C, paragraphs 18 and 19 of the Stipulation, provided  
13 as Exhibit A, provides a detailed description of the spread of the proposed electric and  
14 natural gas revenue increases for 2013 and 2014. As it relates to electric, Exhibit A, Page 1  
15 of Appendix 3 shows the proposed increase to the Company's electric service schedules  
16 effective January 1, 2013 and January 1, 2014. Page 2 shows the proposed rates within  
17 each of those schedules for 2013, Page 3 shows the proposed rates within each of those  
18 schedules for 2014, Page 4 shows the Schedule 93 Energy Recovery Mechanism (ERM)  
19 offsets for 2013 and 2014, and finally Page 5 shows the calculation of the LIRAP rate  
20 (Schedule 91) for 2013 and 2014.

21           As it relates to natural gas, Page 6 shows the proposed increase to the Company's  
22 natural gas service schedules, Page 7 shows the proposed rates within each of those  
23 schedules for 2013, Page 8 shows the proposed rates within each of those schedules for

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1 2014, and finally Page 9 shows the calculation of the LIRAP rate (Schedule 191) for 2013  
2 and 2014.

3 **Q. Turning to the proposed electric revenue increase of \$13,650,000**  
4 **effective January 1, 2013, could you please describe the proposed method to spread**  
5 **the proposed increase?**

6 A. Yes. The Settling Parties agreed to spread the increase on a uniform  
7 percentage basis, as shown on Page 1 of Exhibit A, Appendix 3. The Settling Parties did  
8 not agree on any specific Cost of Service methodology, nor approve any change in  
9 methodology for use in future general rate cases.

10 **Q. For the rate increase of \$14,038,000 effective January 1, 2014, is the**  
11 **increase also proposed to be spread on a uniform percentage basis?**

12 A. Yes, it is.

13 **Q. What rate design was agreed to in the Settlement Stipulation for**  
14 **electric service in 2013, as shown on page 2 of Exhibit A, Appendix 3?**

15 A. The components of rate design are as follows:

16 (i.) The Residential Basic Charge (Schedule 1) will increase effective  
17 January 1, 2013 from \$6 per month to \$8 per month.

18 (ii.) For the rate design of Schedule 1, the revenue requirement applicable to  
19 the volumetric rates will be spread on a uniform percentage basis.

20 (iii.) The volumetric blocks in Schedule 1 will be changed as follows:

21 • Block 1 will consist of the first 800 kWhs per month, versus the  
22 existing level of 600 kWhs per month.

- 1                   • Block 2 will consist of all kWhs between 801 and 1,500 kWhs per  
2                   month.
- 3                   • Block 3 will consist of all kWhs above 1,500 per month.
- 4           (iv.) For the rate design of Schedule 25, the demand charge for the first 3,000  
5           kVa or less will increase from \$14,000 to \$14,500 per month effective  
6           January 1, 2013. In addition, the demand charge will increase from \$4.25  
7           to \$4.75, for kVa over 3,000 per month, and the Primary Voltage  
8           Discount for 115 kV will increase from \$1.35 to \$1.40 per kVA per  
9           month. The final revenue requirement applicable to Schedule 25 will be  
10          spread on a uniform percentage basis to the first two energy block rates,  
11          and there will be no increase to the third block.
- 12          (v.) The Rate Design for all other Schedules will be as follows:
- 13                 • Schedules 11/12 will have an increase in the Basic Charge from  
14                 \$12.00 to \$15.00 per month, and a uniform percentage increase to  
15                 blocks. In addition, the demand charge will remain the same at  
16                 \$5.75 per kilowatt for all demand in excess of 20 kW per month.
- 17                 • Schedules 21/22 will have an increase in the Basic Charge from  
18                 \$400 to \$450 per month, for the first 50kW or less, and a uniform  
19                 percentage increase to all blocks. In addition, the demand charge  
20                 will increase from \$5.25 to \$5.75 per kilowatt for all demand in  
21                 excess of 50 kW per month.



- 1                   • Schedules 31/32 will have an increase in the Basic Charge from
- 2                   \$10.00 to \$15.00 per month, and there will be a uniform percentage
- 3                   increase to all blocks.
- 4                   • Street and Area Lighting (Schedules 41-48) will see a uniform
- 5                   percentage increase.

6           **Q.     What rate design was agreed to in the Settlement Stipulation for**  
7 **electric service in 2014, as shown on page 3 of Exhibit A, Appendix 3?**

- 8           A.     The components of rate design are as follows:
- 9           (i.)    For the rate design of Schedule 1, the revenue requirement will be spread
  - 10           to the blocks on a uniform percentage basis. There will be no further
  - 11           change to the Basic Charge.
  - 12           (ii.)   For the rate design of Schedule 25, the Basic Charge for the first 3,000
  - 13           kVa or less will increase by \$500 per month, from \$14,500 to \$15,000.
  - 14           In addition, the demand charge will increase from \$4.75 to \$5.25 for kVa
  - 15           over 3,000 per month. The final revenue requirement applicable to
  - 16           Schedule 25 will be spread on a uniform percentage basis to the first two
  - 17           energy block rates, and there will be no increase to the third block.
  - 18           (iii.)  The Rate Design for Schedules 1, 11/12, 21/22, and 31/32 will be based
  - 19           on a uniform percentage increase to the blocks with no changes to basic
  - 20           charges. In addition, Schedules 11/12 and 21/22 demand charges will
  - 21           increase from \$5.75 to \$6.00. Street and Area Lighting Schedules 41-48
  - 22           will see a uniform percentage increase.

1           **Q.     Based on the proposed rates set forth in the Stipulation, what would be**  
2 **the monthly bill increase for a residential electric customer with average**  
3 **consumption?**

4           A.     For 2013, the proposed increase for a residential customer using an average  
5 of 989 kWhs per month is \$1.20 per month, or approximately a 1.5 percent increase in their  
6 electric bill. For 2014, the proposed increase for a residential customer using an average of  
7 989 kWhs per month is \$1.60 per month, or approximately a 2.0 percent increase in their  
8 electric bill.

9           **Q.     Turning to the proposed 2013 natural gas revenue increase of**  
10 **\$5,300,000, could you please describe the method to spread the proposed increase?**

11          A.     Yes. For purposes of spreading the revised revenue requirement as shown  
12 on Page 6 of Exhibit A, Appendix 3, the Settling Parties agreed to apply an equal  
13 percentage of revenue increase to all natural gas service schedules.

14          **Q.     For the 2014 proposed natural gas increase of \$1,400,000, is the**  
15 **proposed rate spread the same as that for 2013?**

16          A.     Yes, it is.

17          **Q.     What rate design was agreed to in the Stipulation for natural gas**  
18 **service for 2013, as shown on page 7 of Exhibit A, Appendix 3?**

19          A.     The components of rate design are as follows:

20               (i.) The Basic Charge for Schedule 101 will increase from \$6 per month to \$8  
21               per month.

1 (ii.) The Parties have agreed to add a new block to Schedule 101, thereby  
2 making the schedule an inclining two-block rate. The volumetric blocks in  
3 Schedule 101 will be changed as follows:

- 4 • Block 1 will consist of the first 70 therms per month.
- 5 • Block 2 will consist of all therms above 70 therms per month.
- 6 • The rate differential between Block 1 and 2 will be ten cents (\$0.10)  
7 per therm.

8 (iii.) Schedule 146 will have an increase in the Basic Charge from \$250 to \$400  
9 per month, and a uniform percentage increase to all blocks.

10 (iv.) The Rate Design for other Schedules will be as follows:

- 11 • Schedule 111 will have an increase in the monthly Minimum Charge  
12 based on Schedule 101 rates (breakeven at 200 therms), and a  
13 uniform percentage increase to all blocks.
- 14 • Schedule 121 will have an increase in the monthly Minimum Charge  
15 based on Schedule 101 rates (breakeven at 500 therms), and a  
16 uniform percentage increase to all blocks.
- 17 • Schedule 131 will have a uniform percentage increase to all blocks.

18 **Q. What rate design was agreed to in the Stipulation for natural gas**  
19 **service for 2014, as shown on page 8 of Exhibit A, Appendix 3?**

20 A. The components of rate design are as follows:

21 (i.) The revenue requirement for Schedule 101 will be spread to the two  
22 blocks on a uniform percentage basis, with no further change to the basic  
23 charge.

1 (ii.) Schedule 111 will have an increase in the monthly Minimum Charge  
2 based on Schedule 101 rates (breakeven at 200 therms), and a uniform  
3 percentage increase to all blocks.

4 (iii.) Schedule 121 will have an increase in the monthly Minimum Charge  
5 based on Schedule 101 rates (breakeven at 500 therms), and a uniform  
6 percentage increase to all blocks.

7 (iv.) Schedule 131 will have a uniform percentage increase to all blocks.

8 (v.) Schedule 146 will have a uniform percentage increase to all blocks with  
9 no further change in the Basic Charge.

10 **Q. Based on the proposed rates set forth in the Stipulation, what would be**  
11 **the monthly bill increase for a residential natural gas customer with average**  
12 **consumption?**

13 A. Due to the change in natural gas rate design for Schedule 101, for 2013, a  
14 residential customer using an average of 68 therms per month will see a decrease of \$0.38  
15 per month, or approximately a 0.6 percent decrease in their natural gas bill. For 2014, the  
16 proposed increase for a residential customer using an average of 68 therms per month is  
17 \$0.57 per month, or approximately a 0.9 percent increase in their natural gas bill.

18

19 **VII. LOW INCOME RATE ASSISTANCE PROGRAM**

20 **Q. Please describe the Low Income Rate Assistance Program (LIRAP)**  
21 **portion of the Settlement Stipulation.**

22 A. As described in paragraph 21 of the Stipulation the Settling Parties agreed to  
23 adjust the LIRAP portion of the tariff riders (Schedules 91 and 191) to provide an increase

1 in 2013 funding of \$176,000 to direct low-income energy bill (rate) assistance and  
2 additional \$131,000 increase in 2014. With this increase, the 2013 funding level for  
3 electric low income customers would be approximately \$3.8 million, and approximately  
4 \$1.8 million for natural gas low income customers. In 2014, the funding level for electric  
5 low income customers would be approximately \$3.9 million, and approximately \$1.9  
6 million for natural gas low income customers. Exhibit A, Appendix 3, pages 5 (electric)  
7 and 9 (natural gas), identify the tariff rider adjustments to Schedules 91 and 191 (in ¢/kWh  
8 and ¢/therm), to reflect increased levels of funding for LIRAP.

9 Also, the Company agrees to work with Commission Staff and all interested parties  
10 to discuss the merits of the existing LIRAP program and other potential design options,  
11 including a discounted rate program and to propose changes, if necessary, in its next  
12 general rate case. to conform the funding for low income programs to the language of RCW  
13 80.28.068. No party will be deemed by this Settlement to have agreed that any such change,  
14 however, is required.

## 15 VIII. PUBLIC INTEREST

### 16 Statement of Avista

17 **Q. Please explain why Avista believes the Settlement Stipulation is in the**  
18 **public interest.**

19 A. Approval of the Settlement Stipulation by the Commission would result in  
20 retail rates that are fair, just, reasonable and sufficient, per the requirement of RCW  
21 80.28.010. Although the revenue increases resulting from the Stipulation are below the  
22 original revenue increase requests filed by the Company, the revenue reduction from the  
23 original filing is the result of a combination of incorporating corrections and updated  
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1 information since the time of the original filing, as well as reductions reflecting  
2 concessions made on the part of the Company for purposes of settlement.

3 Approval of the Settlement Stipulation by the Commission would be beneficial to  
4 our Washington customers, our shareholders, as well as other stakeholders in the  
5 ratemaking process. It gives our customers more certainty in their energy rates for the  
6 next two years, and keeps their energy prices among the lowest of investor-owned utilities  
7 in the Northwest and across the country. For shareholders, the revenue increases reflected  
8 in the Settlement Stipulation provide meaningful movement toward addressing the  
9 regulatory lag issue in the State of Washington. The Settlement, together with Avista's  
10 aggressive management of the growth in utility costs going forward, will provide the  
11 opportunity for the Company to earn returns in 2013 and 2014 much closer to the  
12 Commission-authorized rate of return, as compared to prior years. I will emphasize,  
13 however, that the revenue increases from the Settlement Stipulation will provide a  
14 sufficient earnings opportunity for Avista only with the implementation of additional,  
15 aggressive cost management measures that the Company will undertake going forward.

16 The Settlement Stipulation was entered into following extensive discovery, audit  
17 and review of the Company's filing and books and records. Avista responded to 897  
18 discovery requests from the parties, and WUTC Staff visited Avista's offices twice to  
19 conduct on-site audits. Through the discovery process Avista provided information to  
20 correct dollar amounts included in our original filing, and updated information to reflect  
21 changes to Avista's revenues, expenses, and plant investment subsequent to the original  
22 filing. Some examples of corrections and updated information provided to all parties are  
23 as follows:

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Docket Nos. UE-110876 & UG-110877

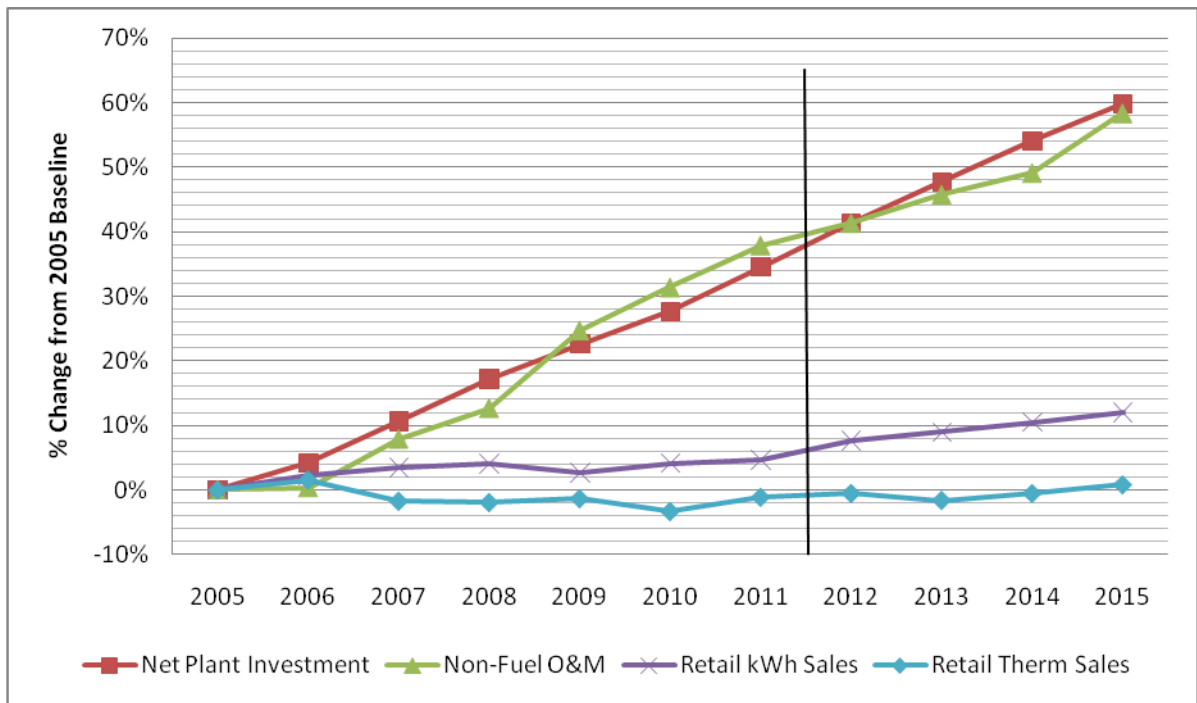
- 1 1. WUTC Staff requested an update to Power Supply costs, including a re-run of the  
2 AURORA model, which decreases electric revenue requirement by \$5.4 million.  
3 2. In developing the response to a discovery request from Public Counsel, Avista  
4 discovered an error in the calculation of Federal Income Taxes (FIT) and deferred  
5 FIT for the test period, which reduces electric revenue requirement by \$3.0  
6 million.  
7 3. A correction to the normalization adjustment for Transmission Revenues increases  
8 electric revenue requirement by \$1.1 million.  
9 4. An update to the Attrition Adjustment to reflect the change in the retail load  
10 forecast completed in July 2012 increases electric revenue requirement by  
11 approximately \$8.2 million. Ms. Breda discusses this change on Page 28 of her  
12 testimony (Exhibit No. \_\_\_\_ (KHB-1CT), where she identifies a change in  
13 revenues of \$12.6 million on a system basis, which is equal to \$8.2 million  
14 Washington share.  
15

16 These are the major corrections and updates identified and provided to all parties  
17 during discovery, and include both increases and decreases to the Company's original-  
18 filed request. As shown in the table below, incorporating these changes to the Company's  
19 original electric revenue request of \$41.0 million would result in a revised revenue need of  
20 \$41.9 million for 2013, which is well above the combined revenue increases for 2013 and  
21 2014 in the Settlement Agreement of \$27.7 million (\$13.65 million in 2013, and \$14.04  
22 million in 2014).

	<u>\$Millions</u>
<b>Original Filing</b>	<b>\$41.0</b>
Updated Power Supply	(5.4)
FIT/DFIT Correction	(3.0)
Transmission Revenue Correction	1.1
Updated Attrition Adjustment	<u>8.2</u>
<b>Adjusted Total</b>	<b>\$41.9</b>

31 This is prior to consideration of the need for additional revenue increases in 2014.  
32 In our original filing, as well as in response to discovery requests, Avista provided  
33 information demonstrating the need for additional rate relief for 2014. For example, in

1 my direct testimony on Page 3 (Exhibit No. \_\_\_\_ (KON-1T), I provided a graph  
 2 (reproduced below) showing the change in Net Plant Investment, Non-Fuel O&M, Retail  
 3 KWH Sales and Retail Therm Sales for the period 2005 to 2015. The results show that  
 4 Net Plant Investment and Non-Fuel O&M will continue to increase at a much faster pace  
 5 than KWH Sales and Therm Sales for 2014 and beyond, which will require additional rate  
 6 increases for 2014 and future years.



17 As another example, in response to a discovery request from WUTC Staff (Staff  
 18 Request No. 137) Avista provided its Financial Forecast for the period 2012 to 2015. This  
 19 forecast shows a need for revenue increases in 2013, 2014 and 2015. The need for  
 20 revenue increases reflected in the Financial Forecast for 2013 and 2014 is well above the  
 21 electric and natural gas revenue increases in the Settlement Stipulation of \$34.4 million. I  
 22 will also note that Avista’s agreement to a 9.8% return on equity (ROE) and 47.0% equity  
 23 layer in the Settlement Agreement was part of the “give and take” negotiations, and was



1 part of the Settlement package that included revenue increases for both 2013 and 2014.  
2 By comparison, Puget Sound Energy, in its recent general rate case order from the WUTC,  
3 received a 9.8% ROE together with a 48.0% equity layer, and PacifiCorp received a 9.8%  
4 ROE with a 49.1% equity layer; accordingly, their approved “weighted” cost of equity was  
5 somewhat higher.

6 The Company agreed to the Settlement, in part, to break the yearly cycle of general  
7 rate case filings, and provide a measure of rate certainty to its customers. Under the  
8 Settlement, Avista would not file a general rate case in 2013, and new retail rates for any  
9 general rate case filed in 2014 would not become effective prior to January 1, 2015. This  
10 break in the cycle would provide relief to all stakeholders – customers, the Commission  
11 and its Staff, intervenors, the Company, and others – from the impacts of annual general  
12 rate cases. This “stay-out” provision is a constructive, progressive element of the  
13 Settlement Stipulation supported by the Settling Parties, which benefits all stakeholders.

14 The Settlement strikes a reasonable balance between the interests of Avista and its  
15 customers on revenue requirement, rate spread and rate design issues, as well as the Low  
16 Income Rate Assistance Program issues included in the Settlement. The Settlement  
17 Stipulation is a result of give-and-take by all Settling Parties, and reflects compromises by  
18 the Parties.

19 Avista, for its part, took into account the issues raised by Public Counsel, who did  
20 not join the Settlement, when arriving at a resolution of all issues. The Settling Parties had  
21 before them the pre-filed testimony of Public Counsel witnesses and participated in  
22 ongoing settlement discussions with Public Counsel. While ultimately Public Counsel  
23 chose not to join with the Settlement, their views were taken into consideration.

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1 Accordingly, the final agreed-upon revenue requirement takes into account Public  
2 Counsel’s recommendations, including, e.g., administrative and general costs,  
3 wages/salaries/incentives, revenue normalization, etc.. The Settlement also takes into  
4 account some of Public Counsel’s views such as electric decoupling (i.e., no  
5 implementation prior to 2015) and the residential basic charge. That is not to say that the  
6 Settlement adopted every one of Public Counsel’s adjustments, but they were taken into  
7 consideration when arriving at an overall “black box” revenue requirement.

8 The Settling Parties have agreed as part of a compromise of positions that the  
9 Company has a demonstrated need for revenue increases for both its electric and natural  
10 gas operations. Approval of the Settlement Stipulation would result in retail rates that are  
11 fair, just, reasonable and sufficient, and the “end result” is in the public interest.

12 **Statement of Commission Staff**

13 **Q. Please summarize the purpose of your testimony.**

14 A. I provide a summary of the Settlement for the Commission from Staff’s  
15 perspective. First, I explain how Staff analyzes the basis for the revenue requirements for  
16 both the electric and natural gas rate increases called for under the Settlement. I then  
17 explain the other elements of the Settlement, including the use of ERM monies to mitigate  
18 the effects of the general rate increases contained in the Settlement. Staff believes the  
19 Settlement will result in rates that are fair, just, reasonable and sufficient.

20 **Q. Please provide a broad overview of the revenue requirements aspects of**  
21 **the Settlement.**

22 A. In broad terms, the revenue requirements aspects and proposed rates of the  
23 Settlement is a two-year agreement setting Avista’s rates for 2013 and 2014. It provides

1 Avista a two year window to manage its business in order to achieve a fair rate of return  
2 within these known price changes. The net impact to Avista’s electric customers is a two  
3 percent increase in electric rates each year for the next two years. Avista’s gas customers  
4 will see a 3.74 percent increase in 2013 and a one percent increase in 2014.

5 **Q. What rate of return is agreed to in the Settlement?**

6 A. The Settling Parties agree to an overall rate of return of 7.64 percent<sup>4</sup> based  
7 upon a return on equity of 9.8 percent and a capital structure with an equity ratio of 47.0  
8 percent.<sup>5</sup> The return on equity is the same value the Commission deemed reasonable this  
9 spring in its order in Docket UE-111048 et al., a contested rate case for Puget Sound  
10 Energy. Using the Company’s updated cost of debt of 5.72 percent, it yields an overall rate  
11 of return of 7.64 percent for Avista.

12 **Q. Please explain why Staff believes the rate increases in 2013 and 2014**  
13 **are reasonable.**

14 A. First, Staff’s attrition analysis shows Avista is experiencing significant  
15 attrition in its utility operations. This is not a one-time phenomenon, because the historical  
16 trends demonstrate attrition is present and ongoing. This is understandable, given Avista’s  
17 capital expenditures to replace facilities necessary to provide service to Avista customers,  
18 coupled with relatively little if any load growth that will continue in 2013 and 2014, based  
19 on the most recent load forecasts provided to the parties.

20 For gas operations, a major driver of attrition is the Company’s twenty-year Aldyl-  
21 A pipe replacement program, which will continue to cause rate base to increase each year.

22

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<sup>4</sup> Settlement, at 4.

<sup>5</sup> Settlement, at 4, Paragraph 7.

1 Avista is not undertaking this program to serve incremental load.

2 Mr. Norwood shows that the historic trend in rate base growth and growth in non-  
3 fuel operation and maintenance costs for Avista’s electric and gas services will continue  
4 over at least the next three years.<sup>6</sup> Mr. Morris explains the continued growth in capital  
5 expenditures for Avista.<sup>7</sup> These phenomena boil down to a long history of rate increases  
6 for Avista, which I provided in one of my exhibits.<sup>8</sup>

7 Based upon this information, Staff concluded that the increases recommended in  
8 the Settlement are sufficient to provide Avista a reasonable opportunity to earn a fair return  
9 over the next two years, and it supports the “stay-out” feature of the Settlement.

10 **Q. Do you have any other comments with respect to the Company’s pipe**  
11 **replacement program?**

12 A. Yes. The gas rate increases contained in the Settlement supports  
13 continuation of the Company’s Aldyl-A pipe replacement program.

14 **Q. Please explain why Staff is agreeing to use ERM balances as an offset to**  
15 **the billed rates electric customers will experience as a result of the Settlement.**

16 A. One of the central elements of the Settlement is the use of ERM balances  
17 for the customers’ benefit to mitigate rate pressures customers will experience for the next  
18 two years under the terms of the Settlement. At this time, Staff considers it appropriate to  
19 begin returning ERM balances to customers as a means to mitigate the increases over this  
20 two year period.

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<sup>6</sup> Exhibit No. \_\_\_\_ (KON-1T) at 3: Illustration.1.

<sup>7</sup> Exhibit No. \_\_\_\_ (SLM-1T) at 8:18-20.

<sup>8</sup> Exhibit No. \_\_\_\_ (KLE-5)

1 Even with the revised “trigger” of \$30 million in the Settlement, customers may not  
2 enjoy the near term benefit of ERM deferrals. The Settlement, however, makes use of  
3 ERM dollars now for the benefit of customers – dollars which they may or may not  
4 otherwise see in the near future, based on the workings of the ERM.

5 Specifically, the Settlement returns money in the ERM account balance to  
6 customers beginning in 2013 and continuing through the end of 2014. For perspective, the  
7 current ERM credit balance to date is approximately \$20.0 million<sup>9</sup>. While it is uncertain  
8 how the ERM balances will actually change, the Settlement objective was to return some  
9 ERM monies to customers and leave an ERM credit balance at the end of 2014 for future  
10 customer benefit.<sup>10</sup>

11 In sum, the Settlement’s use of ERM credit balances is prudent and measured. It  
12 provides benefits to customers to temper the rate increases Avista needs in 2013 and 2014,  
13 and at the same time, is not so significant as to cause major bill impacts to customers if the  
14 ERM rate credit expires at the end of 2014.<sup>11</sup>

15 **Q. Please explain the average bill impacts to electric customers of the**  
16 **Settlement and the use of ERM monies for customer benefit?**

17 A. In 2013 and 2014, customers will see an average 2 percent increase in their  
18 bills. In 2015, the ERM credit would need to be evaluated and a decision made with  
19 respect to its impact on customer bills. If the ERM credit is not further funded, customer  
20 bills would increase by 2 percent in 2015, assuming no other rate changes.

21

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<sup>9</sup> Settlement at 3, footnote 2.

<sup>10</sup> The Settlement essentially returns the 2011 ERM balance to customers.

<sup>11</sup> From the customer’s perspective, an expiring bill credit will increase the customer’s bill, all else being equal.

1           **Q.     What other items are addressed in the Settlement?**

2           A.     The Settlement addresses: 1) rate spread and rate design; 2) low income  
3 funding; 3) ERM structure; 4) deferred accounting for REC revenues; 5) new depreciation  
4 rates; 6) reporting for Aldyl-A pipe replacement; 7) utility/non-utility, service and  
5 jurisdictional allocations; 8) deferred major maintenance; and 9) decoupling.

6           **Q.     Does Staff have any specific comments regarding rate spread and rate  
7 design?**

8           A.     Yes. First, for rate spread the Settlement apportions the responsibility to  
9 each class and is consistent with prior practice in previous settlements. Second, for rate  
10 design the Settlement goes beyond the usual uniform percentage increase to each rate  
11 element. The settlement captures several of the principles advocated by Staff witness Mr.  
12 Mickelson in his direct testimony.<sup>12</sup> In particular, the Settlement makes changes to the  
13 residential schedules consistent with Staff's case.<sup>13</sup>

14           **Q.     Does Staff have any specific comments on ERM structure?**

15           A.     Yes. Under Paragraph 10 of the Settlement, the ERM structure is basically  
16 the same as proposed by Staff witness Mr. Buckley, who recommended no changes to the  
17 ERM except the calculation of the Retail Revenue Credit and changing the ERM Rate  
18 Adjustment Trigger to \$20 million.<sup>14</sup> The Settlement changes Staff's recommended \$20  
19 million Trigger to \$30 million, which will mean fewer rate adjustments under the ERM,  
20 compared to a \$20 million Trigger.

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<sup>12</sup> Exhibit No. \_\_\_\_ (CTM-1T) at 17:20 through 30:8 & 43:23 through 47:13.

<sup>13</sup> Id.

<sup>14</sup> Exhibit No. \_\_\_\_ (APB-1T) at 19:7 to 23:6.

1           **Q.     Does Staff have any specific comments on deferred accounting for REC**  
2 **revenues?**

3           A.     Yes. Under Settlement Paragraph 12, Avista will track REC revenues for  
4 customer benefit outside the sharing bands of the ERM, beginning January 1, 2013.  
5 Currently, the ERM defers REC revenues along with other items in the ERM accounts.  
6 Staff believes this resolution fairly implements the Commission’s policy that REC  
7 revenues should be returned to ratepayers.

8           **Q.     Does Staff have any specific comments on accounting for Aldyl-A pipe**  
9 **replacement?**

10          A.     Yes. Under Settlement Paragraph 16, Avista commits to separately track  
11 projects associated with the Aldyl-A pipe replacement program. Staff witness Mr.  
12 Mickelson recommended Avista account for Aldyl-A pipe as it is replaced, so the  
13 Commission can analyze the impact of this program on Avista’s rate base and depreciation.  
14 This accounting is necessary because traditional asset accounting will not track this detail.  
15 This information will be very useful in the future.<sup>15</sup>

16          **Q.     Does Staff have any specific comments on utility/non-utility, service**  
17 **and jurisdictional allocations?**

18          A.     Consistent with the recommendation of Staff witness Ms. Breda,<sup>16</sup> under  
19 Settlement Paragraph 17, Avista agrees to justify the utility/non-utility, service and  
20 jurisdictional cost allocation methods that it employs. These methods have been in place  
21 since the early 1990s, and it is wise to evaluate them from time to time.

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<sup>15</sup> Exhibit No. \_\_\_\_ (CTM-1T) at 6:20 to 7:10.

<sup>16</sup> Exhibit No. \_\_\_\_ (KHB-1T) at 16:19 to 7:2.

1           **Q. Does Staff have any specific comments on deferred major**  
2 **maintenance?**

3           A. Yes. Under Settlement Section 15, the deferral for major maintenance will  
4 terminate December 31, 2012. As Ms. Breda explained,<sup>17</sup> the Commission only  
5 “provisionally” approved this mechanism in the last rate case, and the Commission further  
6 expressed its concerns with this type of mechanism in its recent order for Puget Sound  
7 Energy, in Docket UE-111048. Given these orders, Staff could not support the continued  
8 operation of the mechanism. The Settlement calls for an orderly “unwinding” of the  
9 mechanism, by fully amortizing all deferred amounts under the mechanism over four  
10 years.<sup>18</sup>

11           **Q. What is Staff’s conclusion with respect to the Settlement?**

12           A. Staff concludes the Settlement is a reasonable resolution to the issues in the  
13 case. It will result in rates that are fair, just reasonable and sufficient for the next two  
14 years, and it provides Avista appropriate incentives to manage its utility business. The  
15 Commission should accept the Settlement.

16           **Statement of ICNU/NWIGU**

17           **Q. On whose behalf are you appearing in this testimony?**

18           A. I am testifying on behalf of the Industrial Customers of Northwest Utilities  
19 (“ICNU”). ICNU is a non-profit trade association whose members are large electric  
20 customers served by utilities throughout the Pacific Northwest, including Avista Utilities  
21 (“Avista” or the “Company”). I previously testified in this proceeding on behalf of ICNU  
22

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<sup>17</sup> Exhibit No. \_\_\_\_ (KHB-1T) at 11:14 to 13:6.

<sup>18</sup> The amortization of the total amount deferred will end in 2016.



1 regarding electric revenue requirement, cost of service, power costs, rate spread and design,  
2 and other rate issues. I also testified on behalf of the Northwest Industrial Gas Users  
3 (“NWIGU”) regarding natural gas cost of service and rate spread and design issues.

4 **Q. What is the purpose of this testimony?**

5 A. I am testifying on behalf of NWIGU and ICNU in support of the proposed  
6 Settlement Stipulation in this proceeding.

7 **Q. Why does ICNU support the proposed Settlement Stipulation?**

8 A. Avista’s electric customers have faced annual rate increases while in the  
9 midst of the deepest recession in memory. Repeated rate cases and a dismal local  
10 economy have had large impacts on ratepayers. This Settlement provides a reasonable  
11 increase for Avista in 2013 and 2014, but precludes another general rate case increase  
12 before January 1, 2015. The Settlement also staggers the allowed increase, providing that  
13 it will be phased in over two years, and this will mitigate the rate impacts.

14 The Settlement Stipulation provides rate stability. Rate certainty is very important  
15 for industrial customers. Electricity is a major cost component for the operations of  
16 ICNU’s members. It is vital that they be able to plan using a stable, predictable price for  
17 this input. The Stipulation prevents Avista from filing for new rates that would be  
18 effective before January 1, 2015, and this provides price certainty at a time when budgets  
19 are being prepared for the coming two years. This certainty and stability are crucial for  
20 ICNU and are in the public interest, and are a key reason ICNU supports the settlement.

21 **Q. Does ICNU believe that the Settlement Stipulation implements a just**  
22 **and reasonable rate of return for Avista?**

1           A.       Yes, the settlement adopts a rate of return that is within the likely range of  
2           reasonableness. The parties to the Stipulation have agreed upon a 9.8% return on  
3           common equity (“ROE”) and an equity ratio of 47%. Parties have submitted extensive  
4           prefiled evidence on the question of ROE and capital structure, and based on this  
5           testimony, 9.8% is within the range of reasonableness, and an acceptable outcome.

6           **Q.       Does ICNU support an attrition adjustment for Avista in this case?**

7           A.       The Settlement Stipulation specifically states that the parties have not  
8           agreed upon an attrition adjustment. ICNU does not believe an attrition adjustment is  
9           appropriate, and would not have supported the Stipulation if it had included such an  
10          adjustment.

11          **Q.       Does ICNU support the treatment of the ERM in the Stipulation?**

12          A.       The Stipulation leaves the structure of the ERM intact. The Stipulation  
13          changes the rate adjustment trigger from 10% of base revenue to a \$30 million threshold,  
14          but leaves intact the structure of the deadband and sharing bands. The ERM has  
15          functioned appropriately for the last decade, and ICNU believes that leaving the basic  
16          structure intact and lowering the threshold is a reasonable compromise.

17          **Q.       Is it appropriate to use ERM funds to offset rate increases during 2013**  
18          **and 2014?**

19          A.       Yes. Given that the rate adjustment trigger will be set at \$30 million, it is  
20          highly unlikely that use of \$4.4 million of ERM funds to mitigate the effects of Avista’s  
21          rate increase in 2013 and \$9.0 million in 2014 will affect the function of the ERM. It is  
22          unlikely that customers would have received the benefit of an ERM-triggered customer  
23          refund. On the other hand, the benefit to the public of offsetting a higher rate increase at a

1 time when the local economy is struggling to grow is substantial. ICNU believes such use  
2 of ERM funds is appropriate and in the public interest.

3 **Q. Does ICNU Support the treatment of REC revenues proposed in the**  
4 **Stipulation?**

5 A. Yes, the Settlement Stipulation directs that any REC revenues beyond those  
6 already credited to customers must be passed through to customers on a 100% basis. The  
7 REC revenues pass through the ERM, but are not subject to its deadband and are not  
8 shared. This directly benefits the public by returning ratepayer funds when Avista sells  
9 REC assets.

10 **Q. Why does ICNU support the Settlement Stipulation treatment of**  
11 **decoupling?**

12 A. The settling parties have agreed that they will not support NWECA's  
13 decoupling proposal in this docket, and Avista has agreed that it would not propose a  
14 decoupling program at least until it files its next general rate case. Washington's Energy  
15 Independence Act, also known as I-937, requires Avista to "pursue all available  
16 conservation that is cost-effective, reliable, and feasible."<sup>19/</sup> Because Avista has a legal  
17 duty to pursue all conservation that is feasible and cost effective, ICNU believes that  
18 decoupling would have little, or, more likely, no effect on Avista's efforts to acquire  
19 conservation. Decoupling would likely, however, result in nearly automatic rate increases  
20 each year without the scrutiny of rate cases. This means that decoupling would produce a  
21 very real threat of increased costs to customers, which must be weighed against a  
22

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<sup>19/</sup> RCW § 19.285.40.

1 theoretical benefit of increased conservation efforts that is largely or wholly illusory.  
2 Decoupling is an imprecise tool, and there are many other more effective ways to achieve  
3 conservation. Therefore, because this Stipulation provides that the parties will not support  
4 decoupling at this time, ICNU believes that it is in the public interest.

5 **Q. Does ICNU support the Northwest Energy Coalition’s efforts to have**  
6 **further proceedings in this docket to pursue an electric decoupling mechanism?**

7 A. No, it is not appropriate to adopt decoupling at this time. ICNU believes  
8 that if decoupling is ever appropriate, it should only be adopted after being proposed by a  
9 utility in the direct testimony of a fully litigated general rate case. At the Commission’s  
10 direction, parties have filed additional evidence regarding decoupling, yet no detailed,  
11 decoupling mechanism has been proposed. Staff, at the Commission’s request, developed  
12 the broad outline of a decoupling mechanism it believed would be consistent with the  
13 Commission’s Policy Statement on decoupling, but this did not amount to a working  
14 decoupling proposal, nor did Staff recommend its adoption. NWEC has proposed the  
15 broad outlines of a decoupling program that it would like to see adopted, but it included  
16 less detail than Staff. As noted above, ICNU believes that decoupling is unnecessary,  
17 complicated, and will likely have unintended consequences. Nonetheless, this Stipulation  
18 does not infringe on the rights of other parties, such as NWEC, who are free to continue to  
19 push for decoupling in the current case, should it so desire, despite ICNU’s opposition.

20 **Q. Why does ICNU support the Settlement Stipulation rate spread**  
21 **proposal?**

22 A. The Settlement Stipulation electric rate spread proposal represents an  
23 acceptable outcome given the cost-of-service evidence that would have undoubtedly been

1 filed by all settling parties. As a result, ICNU believes the Settlement Stipulation method  
2 of spreading the increase on an equal percentage basis is a compromise of positions and is  
3 in the public interest.

4 **Q. Does ICNU support the January 1, 2013 effective date for new rates?**

5 A. Yes, as part of an overall package set forth in the settlement agreement.  
6 ICNU supports the proposed effective date for new rates, given that Avista has agreed not  
7 to file a new general rate case that would be effective prior to January 1, 2015.

8 **Q. Does ICNU recommend that the Commission approve the Settlement**  
9 **Stipulation?**

10 A. Yes. For the reasons noted above, the Settlement Stipulation is in the public  
11 interest, and ICNU recommends approval of it in its entirety by the Commission.

12 **Q. Please explain why NWIGU believes the Settlement Stipulation is in the**  
13 **public interest.**

14 A. NWIGU believes the Settlement Stipulation is in the public interest and  
15 recommends the Commission approve the settlement because the best interests of Avista's  
16 natural gas customers are served by the underlying fair compromise on certain revenue  
17 requirement, rate spread and design issues. While the signing parties may each hold  
18 different positions on the individual components of Avista's natural gas revenue  
19 requirement addressed in the Settlement Stipulation, NWIGU supports the settlement as  
20 the agreement reached has brought down the overall gas revenue requirement increase by  
21 \$4.8 million from the \$10.1 million requested by Avista. Incorporating all of the agreed  
22 upon adjustments, the overall gas revenue increase is now just \$5.3 million in 2013 and

1 just \$1.4 million, or 0.9 percent in 2014. NWIGU supports this Settlement Stipulation as  
2 the overall result is a fair compromise between Avista and its customers.

3 NWIGU also finds this Settlement Stipulation to be in the public interest as the  
4 spread of the gas rate increase is done in a manner that is consistent with the results of both  
5 the Company's cost of service analysis and the preliminary cost of service analysis  
6 performed by NWIGU in this proceeding. Under the Settlement Stipulation, it is important  
7 from NWIGU's perspective that Schedule 146 is moved towards its relative cost of service  
8 by spreading the increase on an equal percentage of revenue basis as proposed in the  
9 company's filing. Moving rates closer to cost is appropriate, and is a significant reason  
10 NWIGU supports the Settlement Stipulation. In addition for Schedule 146 rate design, the  
11 Settlement Stipulation calls for increasing the customer charge from \$250 to \$400 per  
12 month and applying the same percentage increase to all the volumetric rate blocks.  
13 NWIGU support this cost-based Schedule 146 rate design.

14 For the reasons set forth above, NWIGU believes the Settlement Stipulation is in  
15 the public interest and should be approved by the Commission.

16 **Statement of The Energy Project**

17 **Q. What is the Energy Project's interest in this rate case?**

18 A. The Energy Project intervened on behalf of the six agencies that provide both  
19 federally funded and Avista funded bill assistance and energy efficiency services in  
20 Avista's service territory because these agencies are concerned that increases in utility rates  
21 make it more difficult for low-income households to afford electric or natural gas services  
22 in their homes.

23 **Q. What was your response to the Company's request for a rate increase?**

1           A.     We appreciated that the Company was willing to increase the funding for  
2 the Low Income Rate Assistance Program (LIRAP) equal to the residential rate increase,  
3 but asserted that a somewhat higher increase was in order, given the level of need in their  
4 service territory. We also indicated that three counties in their service territory would  
5 benefit from \$100,000 additional energy efficiency funding.

6           **Q.     What is your position on the rate increases or the other aspects of the**  
7 **settlement?**

8           A.     A lower rate increase than originally proposed by AVISTA with greater  
9 certainty as to the increases that will occur between now and January 1, 2015 is beneficial  
10 to low income customers. We were also concerned in particular about their request to  
11 increase the basic monthly charge to \$10/month. That would be nearly \$100 additional  
12 cost for low-income households with both gas and electric service. Such increases make  
13 service affordability more difficult for low-income households. So limiting the increase in  
14 the basic charge to the \$8 is also beneficial.

15           **Q.     Why, then, in this settlement have you agreed to the Company's**  
16 **original offer for the LIRAP program increase?**

17           A.     We agreed to the lower increase because another issue took greater  
18 importance in our point of view – that of the structure of the LIRAP program.

19           **Q.     Please explain what you mean by the “structure” of the program?**

20           A.     The LIRAP program was designed by the Company in cooperation with the  
21 agencies that implement the program and other interested parties as a result of Docket UE-  
22 010436/UG-010437 over eleven years ago. Similar program designs, increases to funding,  
23 and other program enhancements have been approved by the Commission in numerous

1 dockets for most of the investor owned utilities in the state over that time. In Avista’s case  
2 the decision was to mimic the Washington State design of the federal Low Income Home  
3 Energy Assistance Program, which essentially evaluates the household’s level of need  
4 based on household income relative to household size, and the size of the energy bill.  
5 Based on those factors the household receives a benefit that is applied as a credit to the  
6 annual bill.

7 **Q. Why did the structure of the program become an issue in this docket?**

8 A. Because in her testimony Commission staff Deborah Reynolds stated that  
9 the utility should be required to file a change to the program such that it would be a “rate  
10 discount” such as the one that is currently run by PacifiCorp in Washington.

11 **Q. Do you object to changing the program structure?**

12 A. Not necessarily. While we believe the rate assistance programs have been  
13 helpful in keeping low income customers connected to their energy provider, we are very  
14 interested in improving the program in ways that will allow us to serve more people  
15 effectively. We are interested in looking for ways to make the program administratively  
16 simpler and cheaper to implement. We object, however, to being restricted to a  
17 predetermined structure without first examining the actual goal to be achieved as well as  
18 the intended and unintended consequences of the structural options.

19 There are many ways that rate discount programs can be structured – fixed  
20 percentage of bill reductions/month, fixed credits/month, percentage of income payment  
21 programs, as well as annual bill credits or cents/kWh-used discounts. These all provide  
22 utility services at a lower cost, or a “discount.” Some apply the benefit monthly, others  
23 annually; some apply a set dollar value, others a flat percentage of bill is credited or a



1 percentage of income payment is required. We believe all of these possibilities are allowed  
2 in order for utilities and stakeholders to design the program that works best for their  
3 customers.

4 We concur with the concept that the ideal program would be to serve everyone who  
5 is eligible for it. The reality, however, is that seldom, if ever, happens due to caps on  
6 program funding or difficulties connecting to hard to reach populations (e.g., language,  
7 literacy, or cultural barriers that impede enrollment). We would add that it doesn't address  
8 the goal of the program if the benefit that "everyone" gets is so low that customers can't  
9 stay connected and paying something for service. The point is to optimize the design so  
10 that the most people can be served with meaningful assistance. That is a more complicated  
11 question to consider.

12 **Q. So you agreed to sign this settlement because it does not require the**  
13 **utility to file to change the program to a rate discount?**

14 A. Yes. The Settlement allows time to determine whether such a change is  
15 necessary and requires the utility to meet with all interested parties including those  
16 organizations who implement the program to consult and discuss the best ways to improve  
17 the program. The agencies are very interested and motivated to work with Avista and other  
18 stakeholders to improve the program. From our perspective that is in the best interest of  
19 Avista's low-income customers.

20 **IX. CONCLUSION**

21 **Q. What is the effect of the Settlement Stipulation?**

22 A. The Settlement Stipulation represents a negotiated compromise among the  
23 Settling Parties. Thus, the Settling Parties have agreed that no particular party shall be

1 deemed to have approved the facts, principles, methods, or theories employed by any  
2 other in arriving at these stipulated provisions, and that the terms incorporated should not  
3 be viewed as precedent setting in subsequent proceedings except as expressly provided.  
4 In addition, the Settling Parties have the right to withdraw from the Settlement Stipulation  
5 if the Commission adds any additional material conditions or rejects any material part of  
6 the Settlement Stipulation.

7 **Q. In conclusion, why is this Settlement Stipulation “in the public**  
8 **interest?”**

9 A. This Stipulation should be approved for the following reasons:  
10  
11 • It strikes a reasonable balance between the interests of the Company and its  
12 customers, including its low-income customers. As such, it represents a  
13 reasonable compromise among differing interests and points of view.  
14  
15 • It breaks the yearly cycle of general rate case filings, providing a measure of  
16 rate certainty to its customers and relief to all stakeholders – customers, the  
17 Commission and its Staff, intervenors, the Company and others.  
18  
19 • The filing has been subjected to great scrutiny through the discovery  
20 process: over six months have passed since the case was filed and the  
21 Company has responded to approximately 900 data requests.  
22  
23 • Ample opportunity has been afforded all Parties to participate meaningfully  
24 in the settlement process.  
25  
26 • In the final analysis, any settlement reflects a compromise, in the give-and-  
27 take of negotiations; the Commission, however, has before it a Settlement  
28 Stipulation that is supported by sound analysis and sufficient evidence. Its  
29 approval is “in the public interest,” and satisfies the requirement that rates  
30 be fair, just, reasonable and sufficient.  
31

32 **Q. Are there legal standards that must be satisfied with respect to any**  
33 **Settlement?**

1           A.     Yes. The Commission’s charge, of course, is to regulate in the public  
2 interest. The Settlement, if approved, must result in rates that are fair, just, reasonable and  
3 sufficient. (RCW 80.28.010) As such, the Commission must not only assure fair prices  
4 and services to customers, but also “...provide the utility with rates sufficient to cover its  
5 prudently incurred costs and an opportunity to recover a return on its investment.” (WUTC  
6 v Avista Corporation, Docket Nos. UE-050482/UG-050483, Order No. 05 (December 21,  
7 2005) at p. 10.) In the final analysis, it is the “end result” that matters, not the methods by  
8 which rates are determined. (Id., at p.11) The Settlement represents the Settling Parties’  
9 best efforts at arriving at an end result that satisfies these requirements.

10           **Q.     Does that conclude your pre-filed direct testimony?**

11           A.     Yes it does.