

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET UE-140188

DOCKET UG-140189

JOINT TESTIMONY OF

KELLY O. NORWOOD (AVISTA)
THOMAS E. SCHOOLEY (STAFF)
LEA FISHER (PUBLIC COUNSEL)
BRADLEY G. MULLINS (ICNU)
EDWARD A. FINKLEA (NWIGU)
CHARLES M. EBERDT (ENERGY PROJECT)

IN SUPPORT OF
THE 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
 - Thomas E. Schooley, Assistant Director-Energy Regulation, WUTC Staff
 - Lea Fisher, Regulatory Analyst, Public Counsel Section of the Washington Office of Attorney General (Public Counsel)
 - Bradley G. Mullins, Independent Consultant, representing Industrial Customers of Northwest Utilities (ICNU)
 - Edward A. Finklea, Executive Director, Northwest Industrial Gas Users (NWIGU)
 - Charles M. Eberdt, Director, The Energy Project

Together we are representatives of the “Parties” in this Joint Testimony.

Q. Are you sponsoring Joint Testimony in support of the Settlement Stipulation filed with this Commission on August 18, 2014?

A. Yes. This Joint Testimony of the Parties recommends approval of the Settlement Stipulation by the Commission. The Settlement Stipulation represents a compromise among differing points of view. Concessions were made by the 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 ____.

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

1 statement of the Parties' views about why the Settlement satisfies their interests and the
2 public interest, as well as any legal points that bear on the proposed Settlement.

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

4 A. Yes. As part of the Settlement Stipulation, the Parties agree that, effective
5 with service on and after January 1, 2015, Avista's annual electric revenues would increase
6 by \$7.0 million from 2014 levels, representing an \$11.2 million reduction from the
7 Company's original request of \$18.2 million. The Parties also agree to an annual natural
8 gas revenue increase of \$8.5 million above 2014 levels; a \$3.6 million reduction from
9 Avista's original request of \$12.1 million.

10 The overall increase in base electric rates would be 1.4 percent under the
11 Settlement, down 2.4 percent from Avista's original request to increase base electric rates
12 by 3.8 percent. To mitigate the 2015 rate increase, the Parties agree that a credit of \$3.0
13 million will be returned to electric customers from the existing Energy Recovery
14 Mechanism (ERM) deferral balance, such that the net overall electric rate increase to
15 customers in 2015 would be 0.8 percent. Natural gas rates would increase overall by 5.6
16 percent with the Settlement, down 2.5 percent from Avista's original request to increase
17 base natural gas rates by 8.1 percent.

18 In addition to the increases noted above, effective January 1, 2015, the current
19 ERM and BPA credits will expire resulting in an overall bill increase of 2.8%.¹ Partially

¹ Included in present billing rates is a refund of approximately \$9.0 million from the Energy Recovery Mechanism Schedule 93 (as approved in Docket No. UE-120436), and a refund of approximately \$4.3 million from the Bonneville Power Settlement (Docket No. UE-130536), both expiring on January 1, 2015.

1 offsetting this increase, also effective January 1, 2015, the Company would rebate
2 approximately \$8.6 million of Renewable Energy Credit (“REC”) revenues over 18 months
3 (\$5.9 million annualized, or 1.2 percent).²

4 Going forward, the Parties agree that the costs associated with RECs purchased to
5 comply with the Washington Energy Independence Act will be excluded from the REC
6 tracking mechanism, and will be included in the determination of base power supply costs
7 in a general rate case. Any differences in costs related to those REC purchases from that
8 included in base power supply costs will be tracked through the ERM, and subject to the
9 existing dead band and sharing bands.

10 Also effective January 1, 2015, the Parties agree to adjust, up or down, Washington
11 electric revenues related to updated power supply costs. The current estimate is a \$6.3
12 million increase for power supply costs. As described further below, a new power supply
13 model run on November 1, 2014, would determine the final power cost increase and ERM
14 baseline, and will be offset by available ERM rebate dollars.

15 The Parties have not agreed on specific capital structure ratios or the cost of capital
16 components. The Settlement Stipulation, however, calls for an overall rate of return of
17 7.32 percent for purposes of booking “Allowance For Funds Used During Construction”
18 (AFUDC) and as necessary for other purposes. The agreed-upon revenue increases reflect
19 a reduction in risk associated with the adoption of decoupling.

² The net overall increase in electric billed rates, inclusive of the general base rate increase and the new and expiring rebates or credits, is 2.4 percent.

1 While the Parties agree to the level of electric and natural gas revenue increases,
2 there is disagreement on the use of an attrition adjustment in the determination of the
3 revenue increases.³

4 The Settlement Stipulation includes agreement on electric and natural gas
5 Decoupling Mechanisms to commence concurrent with the natural gas and electric rate
6 changes January 1, 2015. The length of the Decoupling Mechanisms will be five years
7 with a third-party evaluation to be completed following the end of the third full-year. In
8 addition, the Company will perform an annual earnings test as described further below.

9 The Settlement Stipulation also addresses other items agreed to by the Parties,
10 including use of 2015 billing determinants, deferral of the natural gas revenue requirement
11 associated with the Company's Project Compass Information System for the calendar year
12 2015, and the amortization of the Lake Spokane Deferral over a three-year period
13 beginning January 1, 2015.

14 Lastly, as part of the Settlement Stipulation, the Parties agreed to adjust the Low
15 Income Rate Assistance Program (LIRAP) tariff riders (Schedules 92 and 192) to provide
16 an increase in annual funding of \$414,000 (\$200,000 electric and \$214,000 natural gas) to
17 direct low-income energy bill (rate) assistance,⁴ and agree to meet to explore additional

³ While the Company and Staff support the use of an attrition adjustment to achieve reasonable and sufficient rates, ICNU, Public Counsel and NWIGU do not agree that an attrition adjustment is warranted in this case.

⁴ The Settlement Stipulation, filed with the Commission on August 18, 2014, included in error LIRAP funding increases of \$112,000 (or 2.8 percent) electric and \$221,000 (or 12 percent) natural gas. These amounts reflected funding computations based on twice the Schedule 1 (electric) and Schedule 101 (natural gas) base rate increases, rather than twice the Schedule 1 and Schedule 101 billed rate increases. The resulting increase in LIRAP finding is \$200,000 (or 5 percent) electric and \$214,000 (or 11.6 percent) natural gas, as was intended by the Parties.

1 program options and develop mutually agreed to modifications or additions to the LIRAP
2 program.

3 Later in our testimony, we discuss in more detail the elements of the Settlement
4 Stipulation, specifically, the items reflected in the revenue requirement, electric and natural
5 gas Decoupling Mechanisms, the November power supply update, ERM authorized
6 amounts, rate spread/rate design and miscellaneous other issues as outlined in the
7 Settlement Stipulation.

8 **Q. Who are the signatories to the Settlement Stipulation?**

9 A. The Settlement Stipulation, filed August 18, 2014, was signed by Avista,
10 the WUTC Staff, the Industrial Customers of Northwest Utilities, the Northwest Industrial
11 Gas Users, the Public Counsel Section of the Washington Office of Attorney General, and
12 the Energy Project. These represent all parties to these proceedings. Accordingly, this
13 represents a “full settlement” under WAC 480-07-730.

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

15 A. The Settlement Stipulation calls for an effective date of January 1, 2015.

16 **II. QUALIFICATIONS OF WITNESSES**

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

19 A. My name is Kelly O. Norwood. I am employed by Avista Utilities as the
20 Vice-President of State & Federal Regulation. I am a graduate of Eastern Washington
21 University with a Bachelor of Arts Degree in Business Administration, majoring in
22 Accounting. I joined the Company in June of 1981. Over the past 33 years, I have spent

1 approximately 22 years in the Rates Department with involvement in cost of service, rate
2 design, revenue requirements and other aspects of ratemaking. I spent approximately 11
3 years in the Energy Resources Department (power supply and natural gas supply) in a
4 variety of roles, with involvement in resource planning, system operations, resource
5 analysis, negotiation of power contracts, and risk management. I was appointed Vice-
6 President of State & Federal Regulation in March 2002.

7 **Q. Mr. Schooley, please provide information pertaining to your**
8 **educational background and professional experience.**

9 A. My name is Thomas E. Schooley. I am employed by the Washington
10 Utilities and Transportation Commission (“UTC”, or “Commission”) as the Assistant
11 Director - Energy Regulation, Regulatory Services Division.

12 I have been employed by the Commission since 1991. My responsibilities include
13 direct supervision of the Commission’s Regulatory Analysts who review tariff filings and
14 other applications of regulated electricity and natural gas companies, and make
15 recommendations for Commission decision on those filings and applications.

16 I received a Bachelor of Science degree from Central Washington University in
17 1986. I met the requirements for a double major in Accounting and Business
18 Administration-Finance. I also have a Bachelor of Science degree in geology from the
19 University of Michigan. I passed the Certified Public Accountant exam in May 1989.
20 Since joining the Commission, I have attended several regulatory accounting courses,
21 including the summer session of the Institute of Public Utilities.

1 Before obtaining my current position, I held several other positions including
2 Accounting Manager of the Energy Section and Regulatory Analyst. I testified in Docket
3 UE-960195 involving the merger between Washington Natural Gas Company and Puget
4 Sound Power & Light Company (Puget). I was the lead Staff analyst in several
5 applications for accounting treatment, including Puget Sound Energy, Inc. (PSE) Dockets
6 UE-971619 and UE-991918. I testified in the Avista Corporation's (Avista or Company)
7 general rate case, Docket UE-991606, and Avista's energy recovery mechanism, Dockets
8 UE-000972, UE-010395, UE-011595, and UE-030751. I also assisted in the development
9 of Staff testimony in Puget's "PRAM 2" case, Docket UE-920630, and I presented the
10 Staff recommendation on environmental remediation in Puget Docket UE-911476.

11 I analyzed PacifiCorp d/b/a Pacific Power & Light Company's (PacifiCorp)
12 proposed accounting treatment of Clean Air Act allowances in Docket UE-940947, and
13 participated in meetings of PacifiCorp's inter-jurisdictional task force on allocations. I
14 testified in PSE's power cost only rate case, Docket UE-031725; PSE's general rate cases,
15 Dockets UE-072300/UG-072301 and UE-090704/UG-090705; and PacifiCorp's general
16 rate cases, Dockets UE-032065, UE-050684, UE-061546, *et al.*, and UE-100749.

17 I presented testimony in support of PSE's decoupling in Dockets UE-121697/UG-
18 121705, and expedited rate filing, Dockets UE-130137/UG-130138. Both programs were
19 accepted by the Commission with only minor revisions.

20 I have prepared detailed statistical studies for use by commissioners and other
21 Commission employees, and have interpreted utility company reports to determine their

1 compliance with Commission regulations. I have also presented Staff recommendations to
2 the Commission in numerous open public meetings.

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

5 A. My name is Lea Fisher and my business address is 800 Fifth Avenue, Suite
6 2000, Seattle, Washington, 98104. I am employed as a Regulatory Analyst with the Public
7 Counsel Section of the Washington Attorney General's Office.

8 I received a B.A. in International Studies from the University of Oregon in 2006. In
9 2008, I received a Masters in Public Administration from the Mark Hatfield School of
10 Government at Portland State University. Since joining Public Counsel in August 2008, I
11 have worked on a wide range of energy issues, including the review and analysis of utility
12 conservation programs, decoupling mechanisms, low-income rate assistance programs,
13 renewable energy credits, and other various issues in electric and natural gas general rate
14 case (GRC) and tariff filings before the Commission.

15 Most recently, I filed testimony in PacifiCorp's 2013 general rate case.
16 Additionally, I testified in Avista's 2012 rate case opposing the multiparty settlement
17 reached in that case. I have also filed written testimony and testified as a member of the
18 settlement panel supporting a number of rate case settlements, including Avista's 2010 and
19 2011 general rate case settlements and PacifiCorp's 2011 general rate case settlement.

20 **Q. Mr. Mullins, please provide information pertaining to your educational**
21 **background and professional experience.**

1 A. My name is Bradley G. Mullins. I am an independent consultant appearing
2 on behalf of the Industrial Customers of Northwest Utilities (“ICNU”), a non-profit trade
3 association whose members are large customers served by electric utilities throughout the
4 Pacific Northwest, including Avista.

5 I received Bachelor of Science degrees in Finance and in Accounting from the
6 University of Utah. I also received a Master of Science degree in Accounting from the
7 University of Utah. After receiving my Master of Science degree, I worked at Deloitte
8 Tax, LLP, where I was a Tax Senior providing tax consulting services to multi-national
9 corporations and investment fund clients. Subsequently, I worked at PacifiCorp Energy as
10 an analyst involved in regulatory matters primarily involving power supply costs. I began
11 performing independent consulting services in September 2013. I currently provide
12 consulting services for utility customers, independent power producers, and qualifying
13 facilities on matters ranging from power costs and revenue requirement to power purchase
14 agreement negotiations.

15 My previous testimony in this docket addressed matters related to the Company’s
16 revenue requirement—including power costs, its proposed mechanism for returning to
17 customers the proceeds from sales of Renewable Energy Credits (“REC”), the Company’s
18 attrition study, and its proposed decoupling mechanism.

19 **Q. Mr. Finklea, please provide information pertaining to your educational**
20 **background and professional experience.**

21 A. My name is Edward A. Finklea. My business address is 326 Fifth Street,
22 Lake Oswego, OR 97034. I currently serve as the Executive Director of the Northwest

1 Industrial Gas Users (NWIGU). I recently served as an adjunct professor of Law and
2 Economics at Lewis and Clark Law School. Prior to my current position, I was Senior
3 Counsel for Nisource Corporate Services, serving as regulatory counsel for an interstate
4 pipeline on matters before the Federal Energy Regulatory Commission. From 1986 until
5 2008, I was in the private practice of law and the Northwest Industrial Gas Users were one
6 of my clients. In that capacity, I represented the Northwest Industrial Gas Users in all
7 regulatory interventions concerning Williams Gas Pipeline West and TransCanada Gas
8 Transmission Northwest, and before state regulatory commissions concerning regulation of
9 the five regional natural gas local distribution companies.

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

12 A. My name is Charles M. Eberdt. I am the Director of the Energy Project.
13 The Energy Project represents the interests of low-income customers of both investor-
14 owned and consumer-owned energy utilities and the various entities that serve them with
15 the federally funded Weatherization Assistance Programs and the Low Income Home
16 Energy Assistance Program in matters before the Commission, with utilities, and other
17 state agencies. I have an M.A.T. from Harvard University. Since 1993, I have been
18 working with all the agencies that provide energy assistance and energy efficiency services
19 to low-income households in Washington. Prior to that I supervised training on energy
20 efficient construction for building code officials and builders for the Washington State
21 Energy Office and provided other public education on energy efficiency. I am a Member of
22 the Board for A World Institute for a Sustainable Humanity (A WISH) and previously

1 served in that capacity for sixteen years for the National Center for Appropriate
2 Technology, which houses the National Energy Assistance Referral Program and the
3 LIHEAP Clearinghouse, in addition to a number of efforts promoting energy efficiency and
4 sustainable living. Over the last twenty years, I have participated in several proceedings
5 before this Commission, including general rate cases for all the energy utilities this
6 Commission regulates.

7 **III. SETTLEMENT PROCESS**

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

10 A. Yes. Representatives of all parties participated in Settlement Conferences
11 held on July 7, 2014 and August 4, 2014, which were held for the purpose of narrowing or
12 resolving the contested issues in this proceeding. Subsequent discussions led to this
13 Settlement Stipulation.

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

20 Significant discovery occurred in the five months leading to the Settlement
21 Conferences. The Company responded to over 500 data requests and provided the
22 responses to all parties.

23

1 **IV. REVENUE INCREASES**

2 **Q. Please explain the Electric and Natural Gas Revenue increases outlined**
3 **in the Settlement Stipulation.**

4 A. After extensive discussions, the Parties agreed that Avista should receive a
5 \$7.0 million electric revenue increase. While Avista’s filing requested an electric revenue
6 increase of \$18.2 million, the agreed upon revenue increase reduces this amount by
7 approximately \$11.2 million. Similarly, while the Company requested a natural gas
8 revenue increase of \$12.1 million, the agreed-upon revenue increase reduces this amount
9 by \$3.6 million, resulting in a recommended natural gas revenue increase of \$8.5 million.

10 **Q. Please explain the Parties’ agreement in regards to the Rate of Return.**

11 A. The Parties have not agreed on specific capital structure ratios or the cost of
12 capital components. For settlement purposes, however, the Parties have agreed that Avista
13 will use a Rate of Return of 7.32% for purposes of booking “Allowance For Funds Used
14 During Construction” (AFUDC) and as necessary for other purposes.⁵ The Parties agree
15 that the revenue increases in the Settlement Stipulation reflect a reduction in risk associated
16 with the adoption of decoupling.

17 **Q. In the determination of the revenue increases, did the Parties agree on**
18 **the use of an attrition adjustment?**

⁵ The 7.32% rate may change based on approval by the Commission in future proceedings of an authorized rate of return.

1 A. No. While the Parties agree to the level of electric and natural gas revenue
2 increases, there is disagreement on the use of an attrition adjustment in the determination
3 of the revenue increases.⁶

4 **Q. What billing determinants did the Parties agree to use to spread the**
5 **agreed-upon revenue increases during the 2015 rate period?**

6 A. The Parties agree the Washington electric and natural gas revenue increases
7 will be spread using the January 2015 through December 2015 billing determinants.

8 **Q. Please explain the components of the Stipulation related to the**
9 **expiration of rebates January 1, 2015, the Renewable Energy Credit (REC) Revenue**
10 **Mechanism, and the November 1, 2014 power supply update.**

11 A. January 1, 2015 Electric Billing Changes and REC Revenue Mechanism:
12 Effective January 1, 2015, the current ERM and BPA credits will expire resulting in an
13 overall increase of 2.8%.⁷

14 Beginning January 1, 2015 the Company will rebate approximately \$8.6 million of
15 Renewable Energy Credit (“REC”) revenues over 18 months (\$5.9 million annualized, or
16 1.3 percent).^{8/9} Going forward, the Parties agree that the costs associated with RECs
17 purchased to comply with the Washington Energy Independence Act will be excluded from

⁶ While the Company and Staff support the use of an attrition adjustment to achieve reasonable and sufficient rates, ICNU, Public Counsel and NWIGU do not agree that an attrition adjustment is warranted in this case.

⁷ Included in present billing rates is a refund of approximately \$9.0 million from the Energy Recovery Mechanism Schedule 93 (as approved in Docket No. UE-120436), and a refund of approximately \$4.3 million from the Bonneville Power Settlement (Docket No. UE-130536), both expiring on January 1, 2015.

⁸ Page 4 of Appendix 2 of the Settlement Stipulation shows the rate spread and cents per kWh rate for the REC Revenue rebate.

⁹ The Parties agree to the removal of certain 2015 REC expenses of \$725,000 in the determination of the REC revenue rebate, and the use of an after-tax cost of capital interest rate (6.34%) on the rebate balance as proposed by Public Counsel and Staff, and agree to the rate spread (E02 allocator - Generation Level Consumption) as proposed by Staff.

1 the REC tracking mechanism,¹⁰ and will be included in the determination of base power
2 supply costs in a general rate case. Any differences in costs related to those purchased
3 RECs from the costs included in base power supply costs will be tracked through the ERM,
4 and subject to the existing dead band and sharing bands.

5 Power Supply Update: Effective January 1, 2015, the Parties agree to adjust, up or
6 down, Washington electric revenues related to updated power supply costs. The current
7 estimate is a \$6.3 million increase for power supply costs. A new power supply model run
8 on November 1, 2014, will determine the final power cost increase and ERM baseline. As
9 in past proceedings, and as noted in Staff testimony (Ball Exhibit No. JLB-1T, page 6), the
10 purpose of this power supply update will be to: 1) update the three-month average of
11 natural gas and electricity market prices; 2) include new short-term contracts for gas and
12 electric; and 3) update or correct power and transmission service contracts for the 2015 rate
13 year. Staff's \$500,000 power supply reduction to expense will be reflected in the updated
14 net power supply costs. In addition, the 2015 REC expenses of \$725,000, excluded from
15 the REC rebate calculation, will also be added to the updated net power supply costs.

16 The net power supply costs resulting from this power supply update, including the
17 two adjustments of \$500,000 and \$725,000, referenced immediately above, will be
18 compared with the net power supply costs in Avista's original filing in this case to
19 determine the adjustment to Washington revenues on January 1, 2015 related to the power

¹⁰ The mechanics of the REC tracking mechanism are included in Mr. Johnson's testimony, WGJ-1T, pages 15-16.

1 supply update. The net power supply costs in Avista's original filing are shown in
2 Appendix 3 to the Settlement Stipulation.¹¹

3 The Company will file on or before November 17, 2014, revisions to the
4 appendices to the Settlement Stipulation to reflect the power supply update. The Parties
5 are free to seek discovery on, and examine the prudence of, the updated power supply
6 items identified above.

7 The updated level of net power supply costs will also be used to determine the new
8 base set of power supply revenues and expenses for ERM calculations beginning January 1,
9 2015, as further explained below.

10 If the November 2014 power supply update results in an increase in net power
11 supply costs, the increase will be offset with available ERM deferral balance dollars for the
12 12-month period January 1, 2015 through December 31, 2015.¹²

13 **Q. Please explain the components of the Stipulation related to the natural**
14 **gas Project Compass deferral and the amortization of the Lake Spokane Deferral.**

15 A. Natural Gas Project Compass Deferral: The Parties agree the natural gas
16 revenue requirement associated with the Project Compass Customer Information System
17 for the calendar year 2015 will be deferred for recovery in a future proceeding, based on
18 the actual costs of the Project at the time the Project goes into service. The carrying charge
19 on the deferral balance will be 3.25%. An estimate of the revenue requirement, for
20 illustrative purposes only, is provided in Appendix 1 to the Settlement Stipulation.

¹¹ These net power supply costs, from the original filing, have been adjusted to reflect 2015 system retail loads, per Paragraphs 9 and 12 of the Settlement Stipulation and discussed below.

¹² The ERM deferral balance as of June 30, 2014 is \$16.7 million, and is currently estimated to be \$13.9 million by December 31, 2014.

1 Lake Spokane Deferral: In Docket No. UE-131576, Order No. 01, the Company
2 received approval to defer and seek recovery in its next general rate case Washington's
3 share (\$871,000) of costs related to the improvement of dissolved oxygen levels in Lake
4 Spokane. The agreed upon revenue increase reflects the amortization of this balance over a
5 three-year period beginning January 1, 2015, with no carrying charge.

6 **Q. What was agreed to for purposes of determining the Energy Recovery**
7 **Mechanism (ERM) authorized amounts?**

8 A. As described in the Settlement Stipulation at Section III. B., starting at page
9 5, for purposes of calculating the monthly ERM entries beginning January 1, 2015, the
10 level of power supply revenues, expenses, retail load, and retail revenue credit for the ERM
11 will be based on the November 1, 2014 updated power supply model run discussed in
12 Section A, Paragraph 6 of the Settlement Stipulation. Appendix 3 of the Settlement
13 Stipulation includes the level of power supply revenues, expenses, retail load, and retail
14 revenue credit as originally filed by Avista, with the power supply expenses and retail load
15 adjusted to reflect 2015 retail loads. The retail load in the new ERM base numbers will be
16 based on 2015 billing determinants.

17 In addition, the Retail Revenue Credit (RRC) will be based on Staff's proposed
18 variable rate (revised to exclude all production plant), which will be based on ERM-related
19 FERC accounts. The same RRC will be used for both the ERM calculations and the
20 electric Decoupling Mechanism starting January 1, 2015 (described below).

21 **Q. Please now explain the Electric and Natural Gas Decoupling**
22 **Mechanisms as agreed-to by the Parties in the Settlement Stipulation.**

1 A. The Parties agree that the electric and natural gas Decoupling Mechanisms,
2 illustrated in Appendices 4 and 5 of the Settlement Stipulation, will commence concurrent
3 with the natural gas and electric rate changes January 1, 2015.¹³ Per the Company's
4 testimony, the length of the decoupling mechanisms is five years, with a third-party
5 evaluation of the mechanisms paid for by Avista, to be completed following the end of the
6 third full-year.

7 As agreed-to by the Parties, electric Schedules 25 and 41-48 are excluded from the
8 decoupling mechanism, as are natural gas Schedules 112, 122, 132 and 146.

9 In addition, the Company will perform an after-the-fact annual earnings test as
10 follows:

11 1) The earnings test will be based on the Company's year-end Commission Basis
12 Reports ("CBR") stated on an average-of-monthly-averages ("AMA") basis,
13 prepared in accordance with WAC 480-90-257 and 480-100-257 (Commission
14 Basis Report). This report is prepared using actual recorded results of electric or
15 natural gas operations and rate base, adjusted for any material out-of-period, non-
16 operating, nonrecurring, and extraordinary items or any other item that materially
17 distorts reporting period earnings and rate base. These adjustments have been
18 consistently made by the Company when preparing past CBRs and are consistent
19 with the adjustments described in paragraph (2) (b) of WAC 480-90-257 and 480-

¹³ Per the Company's filed testimony (PDE-1T, p. 78), the existing partial natural gas decoupling mechanism will be terminated effective January 1, 2015, and the Company will transfer any remaining deferral balance into the new mechanism.

1 100-257 (Commission Basis Report). The CBR includes normalizing adjustments,
2 such as adjustments to power supply-related revenues and expenses to reflect
3 operations under normal conditions. For the earnings test, the decoupling
4 accounting entries adjust revenues from a kilowatt-hour (“kWh”) sales basis to a
5 revenue per customer basis. The CBR will not include any annualizing or pro
6 forma adjustments.

7 2) Should the Company have a decoupling rebate balance at year-end, the entire rebate
8 will be returned to customers.

9 a) If the CBR earned return exceeds 7.32%, the rebate will be increased by one-
10 half the rate of return in excess of 7.32%.¹⁴

11 3) Should the Company have a decoupling surcharge balance at year-end:

12 a) If the CBR earned return is less than 7.32%, no adjustment is made to the
13 surcharge, if any, recorded for the year.

14 b) If the CBR earned return exceeds 7.32%, the surcharge recorded for the year
15 will be reduced, or eliminated, by one-half the rate of return in excess of 7.32%.

16

17 The Parties also agree to other terms regarding the electric and natural gas
18 decoupling mechanisms. First, the calculation of power supply related revenue that will be
19 deducted from total revenues prior to calculating revenue per customer is as follows:

20 Authorized Power Supply Year kWhs * Retail Revenue Credit. Second, the Retail
21 Revenue Credit is based on Staff’s proposed variable rate (revised to exclude all

¹⁴ The 7.32% figure used for the earnings test will be adjusted to reflect any subsequent rates of return approved by the Commission during the term of the Decoupling Mechanisms.

1 production plant), which is based on ERM-related FERC accounts. The same credit will be
2 used for ERM calculations. Third, the Company agrees to increase its electric energy
3 conservation achievement by 5% over the conservation target approved by the
4 Commission, beginning with the 2014-2015 biennial target. Fourth, a decoupling
5 surcharge cannot exceed a 3% annual rate adjustment, and any unrecovered balances will
6 be carried forward to future years for recovery. There is no limit to the level of the
7 decoupling rebate. Fifth, Appendix 4 to the Settlement Stipulation contains the
8 calculations for determining the baseline allowed revenue per customer for the electric
9 decoupling mechanism. The final form of Appendix 4 will be filed on or before November
10 17, 2014, to reflect changes from the November 1, 2014 power supply update. Sixth,
11 Appendix 5 to the Settlement Stipulation contains the calculations for determining the
12 baseline allowed revenue per customer for the natural gas decoupling mechanism.

13 **V. RATE SPREAD/RATE DESIGN**

14 **Q. Please explain the provisions in the Settlement Stipulation related to the**
15 **electric and natural gas rate spread and rate design?**

16 A. Section C, paragraphs 14 and 15, of the Stipulation provide a detailed
17 description of the spread of the proposed electric and natural gas revenue increases. As it
18 relates to electric, Page 1 of Appendix 2 shows the Company's Electric Present and
19 Proposed Rate of Return by Rate Schedule, which incorporates the agreed-upon Rate
20 Spread. Page 2 of Appendix 2 of the Stipulation shows the proposed increase to the
21 Company's electric service schedules and the proposed rates within each of those
22 schedules.

1 As it relates to natural gas, Page 6 of Appendix 2 shows the allocation of the
2 agreed-upon natural gas revenue requirement based on each rate schedules' percentage of
3 current margin, except where noted for Schedule 146. Page 7 shows the proposed increase
4 to the Company's natural gas service schedules and the proposed rates within each of those
5 schedules.

6 **Q. Turning to the proposed electric revenue increase of \$7,000,000, could**
7 **you please describe the method to spread the proposed increase?**

8 A. Yes. The Parties agree to a uniform percentage of revenue increase for
9 purposes of spreading the base revenue increase of \$7.0 million, as well as the \$3.0 million
10 ERM offset, as shown on Page 1 of Appendix 2 of the Stipulation.¹⁵ The Parties, however,
11 did not agree on any specific Cost of Service methodology, nor approve any change in
12 methodology for use in future general rate cases.

13 In addition, the Parties also agree that the revenue change related to the updated
14 power supply costs discussed above, as well as the ERM offset, will be spread on a
15 uniform percentage basis. Within each electric rate schedule, the revenue increase from the
16 updated power supply costs and the ERM offset will be applied on a uniform percentage
17 basis to the variable energy blocks.

18 **Q. What rate design was agreed to in the Stipulation for electric service, as**
19 **shown on page 2 of Appendix 2?**

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

¹⁵ Page 3 of Appendix 2 shows the revenue spread of the \$3.0 million to each rate schedule.

- 1 1) The Residential Basic Charge (Schedule 1) increases from \$8 per month to \$8.50
2 per month.
- 3 2) For the rate design of Schedule 1, the revenue applicable to the volumetric rates is
4 spread on a uniform percentage basis.
- 5 3) For the rate design of Schedule 25, the demand charge for the first 3,000 kVa or
6 less increases from \$15,000 to \$21,000 per month. In addition, the variable
7 demand charge increases from \$5.25 to \$6.00 per kVa over 3,000 per month. The
8 remaining revenue change applicable to Schedule 25 will be spread on a uniform
9 percentage basis to the three energy block rates.
- 10 4) The Rate Design for all other Schedules will be as follows:
 - 11 a) Schedules 11/12 will have an increase in the Basic Charge from \$15.00 to
12 \$18.00 per month, and a uniform percentage rate change to blocks. In addition,
13 the demand charge will remain at \$6.00 per kilowatt in excess of 20 kW per
14 month.
 - 15 b) Schedules 21/22 will have an increase in the Basic Charge from \$450 to \$500
16 per month, for the first 50kW or less, and a uniform percentage increase to all
17 blocks for the remaining revenue increase. In addition, the demand charge will
18 remain at \$6.00 per kilowatt for all demand in excess of 50 kW per month.
 - 19 c) Schedules 31/32 will have an increase in the Basic Charge from \$15.00 to
20 \$18.00 per month, and there will be a uniform percentage increase to all blocks
21 for the remaining revenue increase applicable to the schedule.

1 d) Street and Area Lighting (Schedules 41-48) will see a uniform percentage
2 increase.

3 **Q. Based on the proposed rates set forth in the Stipulation, inclusive of the**
4 **new and expiring rebates and the changes in LIRAP funding, what would be the**
5 **monthly bill increase for a residential electric customer with average consumption?**

6 A. The proposed increase for a residential customer using an average of 965
7 kwhs per month is \$2.11 per month, or approximately a 2.6 percent increase in their
8 electric bill.

9 **Q. Turning to the proposed natural gas revenue increase of \$8,500,000,**
10 **could you please describe the method to spread the proposed increase ?**

11 A. Yes. The rate spread for natural gas is shown on Page 6 of Appendix 2 to
12 the Stipulation. While the Parties do not agree on the results of a single cost of service
13 study, for purposes of settlement the Parties agree to spread the revenue increase as
14 follows:

	Revenue	Percentage
Schedule 101	\$6,581,000	6.00%
Schedule 111/112	\$1,515,000	4.40%
Schedule 121/122	\$181,000	4.60%
Schedule 131/132	\$43,000	5.60%
Schedule 146	\$180,000	7.40%
	\$8,500,000	5.60%

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19 **Q. What rate design elements were agreed to in the Stipulation for natural**
20 **gas service, as shown on page 7 of Appendix 2 to the Stipulation?**

21 A. The components of the natural gas rate design are as follows:

- 1 1) The Basic Charge for Schedule 101 will increase from \$8 per month to \$9 per
2 month.
- 3 2) For Schedule 146, the monthly basic charge will increase from \$400 to \$500 per
4 month, and the remaining revenue increase will be spread on a uniform percentage
5 basis to all blocks.
- 6 3) The Rate Design for other Schedules will be as follows:
- 7 a) Schedule 111 will have an increase in the monthly Minimum Charge based on
8 Schedule 101 rates (breakeven at 200 therms), and a uniform percentage
9 increase to all blocks.
- 10 b) Schedule 121 will have an increase in the monthly Minimum Charge based on
11 Schedule 101 rates (breakeven at 500 therms), and a uniform percentage
12 increase to blocks two through four.
- 13 c) Schedule 131 will have a uniform percentage increase to all blocks.

14 **Q. Based on the proposed rates set forth in the Stipulation, inclusive of the**
15 **changes in LIRAP funding, what would be the monthly bill increase for a residential**
16 **natural gas customer with average consumption?**

17 A. The proposed increase for a residential customer using an average of 65
18 therms per month is \$3.62 per month, or approximately a 5.9 percent increase in their
19 natural gas bill.

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VI. LOW INCOME RATE ASSISTANCE PROGRAM1
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Q. Please describe the Low Income Rate Assistance Program (LIRAP) modifications agreed to by the Parties.

A. The Company, the Energy Project, Commission Staff, other interested parties and the agencies that deliver the LIRAP program have agreed to meet to explore additional program options and develop mutually agreed to modifications or additions to the LIRAP program. The primary intention of either additions or modifications is to keep low-income customers connected to service while serving more customers who need assistance. Modifications would entail changes to the existing bill assistance structures, e.g., continuing to serve LIRAP Heat applicants through the summer. Additions would be changes that augment the existing programs with new service offerings, such as a targeted rate discount or arrearage management program. Meetings will begin no later than 30 days after the Commission accepts any settlement that covers this issue in this case. A third party facilitator acceptable to all the parties will be used and will be paid for by Avista shareholders. Meetings will be held at least bi-monthly or more frequently until completion. The Company will file mutually agreed upon modifications to the existing LIRAP program with the Commission by June 1, 2015, including a proposal to implement such changes in time for the fall 2015 bill assistance season. Any mutually agreed to additions to LIRAP will be filed by June 1, 2016 for implementation on or after October 1, 2016.

Q. Please describe the LIRAP funding changes agreed to by the Parties.

1 A. The Parties agreed to increase the Electric LIRAP Funding by twice the
 2 Schedule 1 billed rate increase, totaling \$200,000 or 5 percent, and Natural Gas LIRAP
 3 Funding by twice the Schedule 101 billed rate increase, totaling \$214,000 or 11.6 percent.¹⁶
 4 In addition, for Schedule 25, the Parties agree that the LIRAP rate will apply to the first and
 5 second energy blocks. LIRAP revenues previously collected from the third block will be
 6 spread to all schedules, including the first two blocks of Schedule 25, on a uniform
 7 percentage of current LIRAP funding levels. The changes to electric LIRAP funding can
 8 be found on Page 5 of Appendix 2 of the Settlement Stipulation, and the changes to natural
 9 gas LIRAP funding can be found on Page 8 of Appendix 2 of the Settlement Stipulation.

VII. OTHER ISSUES

11 **Q. Please explain any remaining issues agreed to by the Parties per the**
 12 **Settlement Stipulation.**

13 **A. The Parties agreed to additional miscellaneous issues as follows:**

- 14 1) Service Quality and Reliability Program: Avista agrees to meet with Staff and
 15 interested parties to develop and implement appropriate service quality metrics,
 16 customer guarantees and reporting, with the agreed upon tariff revisions filed on or
 17 before June 1, 2015, with a program in place on July 1, 2015.
- 18 2) Bonneville Power Residential Exchange Program Interest Rate: Related to the
 19 carrying charge on the Residential Exchange deferral balance, the Company agrees,

¹⁶ The Settlement Stipulation, filed with the Commission on August 18, 2014, included in error LIRAP funding increases of \$112,000 (or 2.8 percent) electric and \$221,000 (or 12 percent) natural gas. These amounts reflected funding computations based on twice the Schedule 1 (electric) and Schedule 101 (natural gas) base rate increases, rather than twice the Schedule 1 and Schedule 101 billed rate increases. The resulting increase in LIRAP finding is \$200,000 (or 5 percent) electric and \$214,000 (or 11.6 percent) natural gas, as was intended by the Parties.

1 effective January 1, 2015, to use a money market carrying charge instead of the
2 Company's average cost of debt.

3 3) 2014 and 2015 Capital Reporting: The Company agrees to provide detailed semi-
4 annual reporting of 2014 and 2015 capital expenditures with actual data by
5 expenditure request, in the categories provided in its pro forma "cross check" plant
6 adjustments. The Parties agree to meet and confer by no later than January 31,
7 2015 to establish any additional details of the capital reporting requirements.

8 4) Separate Forum Recommendation: The Parties recommend the Commission
9 provide a separate forum to discuss attrition and other rate making policy issues, to
10 include participation by Commissioners, and interested parties.

11 5) ERM Balance: The Parties agree to address in the next general rate case alternative
12 methods to rebate or recover ERM deferral balances.

13 **VIII. PUBLIC INTEREST**

14 **Q. Before providing each Party's separate "Statement of Public Interest,"**
15 **what have the Parties agreed to regarding the effect of the Settlement Stipulation on**
16 **any future rate proceedings?**

17 A. The Settlement Stipulation represents a negotiated compromise among the
18 Parties. Thus, the Parties have agreed that no particular party shall be deemed to have
19 approved the facts, principles, methods, or theories employed by any other in arriving at
20 these stipulated provisions, and that the terms incorporated should not be viewed as
21 precedent setting in subsequent proceedings except as expressly provided. In addition, the
22 Parties have the right to withdraw from the Settlement Stipulation if the Commission adds

1 any additional material conditions or rejects any material part of the Settlement
2 Stipulation.

3 **Q. Do each Party's Statement of Position represent their view of why the**
4 **Settlement Stipulation is in the public interest?**

5 A. Yes. The following statements are provided from the perspective of each
6 of the settling Parties, and as such, represent their views only. As such, no other party
7 shall be deemed to have agreed to the statements of a particular party.

8 **Statement of Avista**

9 **Q. Please explain why Avista believes the Settlement Stipulation is in the**
10 **public interest.**

11 A. The Settlement strikes a reasonable balance between the interests of Avista
12 and its customers on revenue requirement, rate spread and rate design issues, as well as the
13 Low Income Rate Assistance Program issues included in the Settlement. This Settlement
14 Stipulation, if approved, provides for recovery of additional costs and results in retail rates
15 that are fair, just, reasonable and sufficient, per the requirement of RCW 80.28.010.

16 The Settlement Stipulation was a compromise among differing interests and
17 represents give-and-take. The Parties have agreed to a revenue increase for both its electric
18 and natural gas customers, in addition to the continuation of the 2014 temporary revenue
19 increases, previously approved, becoming permanent. The Settlement Stipulation was
20 entered into following extensive discovery, audit and review of the Company's filing and
21 books and records.

1 With the levels of capital spending required over the next several years, it is
2 important that the Company attract capital investment and financing under reasonable
3 terms. The Company's initiatives to manage its operating costs and capital expenditures,
4 along with the increases in revenues agreed to by the Parties in this Settlement Stipulation,
5 are an important part of maintaining the financial strength required of the Company to
6 provide safe and reliable service to its customers.

7 Under the terms of the Settlement, the Parties agree that Avista will implement
8 electric and natural gas decoupling mechanisms for a five-year period beginning January 1,
9 2015. These mechanisms provide benefits to both the Company as well as customers. For
10 Avista, the decoupling mechanisms will allow for the recovery of the fixed costs of
11 providing service, on a revenue per customer basis, to the extent the Company's actual
12 revenue varies, up or down, from the level set by the Commission. Customers benefit from
13 the proposed mechanisms by decoupling sales from revenues, in that the disincentive to
14 promote conservation would be removed. Both programmatic and non-programmatic
15 energy efficiency programs would no longer negatively impact the Company's earnings.
16 Under the terms of the Settlement Stipulation, Avista would increase its electric energy
17 efficiency target by 5% with implementation of the mechanism.

18 Also removed would be any incentive for the utility to increase throughput. In
19 addition, customers benefit if the overall actual revenue collected by the Company is
20 greater than that approved by the Commission. For example, if a winter is colder than
21 normal, leading to loads that are higher than normal, customers would receive a rebate
22 related to the increased revenues.

1 As it relates to the impact of distributed generation, with electric decoupling the
2 Company would be made whole on any decrease in revenue relating to customers' self-
3 generation. While the Parties agreed to a small increase in the residential Schedule 1 basic
4 charge, Avista believes more progress needs to be made in future general rate cases to
5 increase the basic charge, and other rate design changes, to provide better price signals to
6 distributed generation customers, as well as to limit intra-schedule subsidization. Finally,
7 the decoupling mechanisms have an after-the-fact earnings test as previously described.

8 As concerns the rate change specifically for Schedule 25 customers, the Company
9 is supportive of the agreed-upon rate design for the schedule, which increases the fixed
10 monthly demand charge, because, in the Company's view, a higher fixed demand charge
11 better reflects the cost of service for these customers as well as reflects a higher level of
12 fixed cost recovery given that the Parties agreed to exempt Schedule 25 from electric
13 decoupling.

14 Additional benefits for customers in the Settlement Stipulation come in the form of
15 rate mitigation rebates, or deferrals of costs, to lessen the impact of the rate changes agreed
16 to by the Parties. For the electric rate change, the Parties were cognizant that, effective
17 January 1, 2015, the current ERM and BPA credits will expire resulting in an overall
18 increase of 2.8%, together with the electric base rate percentage increase of 1.4%. To
19 mitigate the overall January 1, 2015 increase, the Parties have agreed not only to institute
20 the REC Revenue Mechanism rebate, which will provide for a 1.2% revenue decrease, but
21 also to use \$3 million of ERM balance dollars, or 0.6%, to further mitigate the increase.¹⁷

¹⁷ The net overall increase in electric billed rates, inclusive of the general base rate increase and the new and expiring rebates or credits, is 2.4 percent.

1 Finally, the Parties have agreed to return additional ERM balance dollars to mitigate the
2 November 1 power supply update.

3 Total ERM balance dollars to be returned to customers for 2015 total \$9.3 million
4 (\$3.0 million to mitigate the January 1, 2015 base rate increase, and an estimated \$6.3
5 million to offset the November 2014 power supply update). The ERM deferral balance at
6 June 30, 2014 was \$16.7 million, and the current estimate of the ERM balance at
7 December 31, 2014 is \$13.9 million.

8 For natural gas customers, the Parties have agreed to defer the natural gas revenue
9 requirement associated with the Project Compass Customer Information System for the
10 calendar year 2015 for recovery in a future proceeding, reducing the overall impact on
11 customers during 2015.

12 **Statement of Commission Staff**

13 **I. PURPOSE AND SCOPE OF TESTIMONY**

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

15 A. I summarize the proposed full settlement in Dockets UE-140188 and UG-
16 140189 (“Settlement”) for the Commission. First, I explain how Staff analyzed the
17 revenue increases for both the electric and natural gas operations. I then go on to explain
18 the other elements of the Settlement, including decoupling, rate design, certain deferrals,
19 and the use of ERM monies to mitigate the effects of the general and power cost rate
20 increases contained in the Settlement. Staff believes the Settlement will result in rates that
21 are fair, just, reasonable and sufficient.

1 Avista's capital expenditures to replace facilities necessary to provide service to customers,
2 and 2) relatively little load growth through the next couple of years. Avista witness Mr.
3 Kelly Norwood shows that the historic trends in rate base growth and growth in non-fuel
4 operation and maintenance costs for Avista's electric and gas services will continue into
5 the rate year.¹⁹ Staff witness Mr. Chris McGuire presented Staff's own attrition study
6 using longer term trend rates, but Staff can support revenue increases based on the more
7 recent trends.²⁰

8 **Q. What time period is the basis for the revenue and consequent rate**
9 **determinations?**

10 A. The revenue increases in the Settlement are the revenues in 2015 based on
11 the expected number of customers, kwh and therm sales during that year. The rates are
12 based on the same metrics. This feature coordinates the expected revenues in 2015 with
13 the billing determinants based both on the same number of customers and unit sales during
14 the same twelve month period.

15 **Q. Does Staff believe the settlement proposal for rate increases in 2015 are**
16 **reasonable?**

17 A. Yes. Based upon this information, Staff concluded that the increases
18 recommended in the Settlement are sufficient to provide Avista a reasonable opportunity to
19 earn a fair return in 2015.

20 **B. Billing Impacts to Customers and Offsets**

21 **Q. Please explain the bill impacts to customers.**

¹⁹ Exhibit No.____ (KON-1T) at 13: Illustration No. 3.

²⁰ Exhibit Nos.____ (CRM-2) and (CRM-3)

1 A. The bill impact to customers on January 1, 2015, will not be solely due to
2 the revenue increases. In electricity, rates are also affected by the expiration of bill credits
3 from a BPA settlement and ERM credits.²¹ These expiring credits will increase bills by 2.8
4 percent. However, Avista will initiate a rebate of Renewable Energy Credits with bill
5 credits of about \$8.6 million over the next 18 months, for a 1.2 percent annualized bill
6 reduction.

7 The bill impact of the revenue increase will also be mitigated by refunding more of
8 the ERM credit balance. ERM credits will also offset, on a dollar-for-dollar basis, the
9 power cost update.

10 For a summary of the Settlement's rate impacts, please see the table below.

11

²¹ From the customer's perspective, an expiring bill credit will increase the customer's bill, all else being equal.

Table A**Rate Impacts Resulting from Proposed Settlement**

Rate Changes January 1, 2015	Electric	Natural Gas
Increase in Rates from Proposed Settlement	\$7.0 million increase (1.4%)	\$8.5 million (5.33%)
Expiration of ERM Credits Established in UE-120436	\$9.2 million increase (1.9%)	
Expiration of BPA Transmission Refund	\$4.4 million increase (0.9%)	
Power Costs Revision (to be revised on compliance)	\$6.3 million increase (1.3%)	
LIRAP Funding	\$0.2 million increase (0.04%)	\$0.2 million increase (0.14 %)
Total 2015 Rate Increase	\$27.1 million (5.5%)	
New ERM Credits Used to Offset 2015 Increase	\$3.0 million reduction (0.6%)	
New ERM Credits Used to Offset Increased Power Costs	\$6.3 million reduction (1.3%)	
REC Credits Used to Offset 2015 Increase	\$5.9 million reduction in 2015 (1.2%)	
Total Offsets to 2015 Rates	\$15.2 million reduction (3.1%)	
2015 Net Rate Increase including Offsets	\$11.9 million (2.4%)	\$8.7 million (5.5%)

Q. Please summarize the average bill impacts to electric and gas customers given all the components of the proposed Settlement?

A. A customer using an average 965 kwh will see an increase of \$2.11 from \$80.09 to \$82.20 (2.6 percent) in their bills. An average natural gas customer with 65 therms will see an increase of \$3.62 from \$61.19 to \$64.81 (5.9 percent) in their monthly bill.

Q. Why did Staff agree to the further use of ERM balances to offset the rate increase electric customers will experience as a result of the Settlement?

1 A. Staff's objective here is to mitigate rate pressures the customers will
2 experience next year under the terms of the Settlement. However, the relief is a temporary
3 solution. When the credits expire at the end of 2015, customer bills will go up all else
4 being equal. For the 2015 rate year, though, ERM credits will offset the increase in
5 general rates by three million dollars and completely offset an increase in revised power
6 costs.

7 Staff resisted returning additional ERM dollars to customers but agreed to the
8 proposed offsets as a compromise. In return for further use of ERM credits, Staff requested
9 and the parties agreed to take a serious look at the existing terms of the Energy Recovery
10 Mechanism, especially the thresholds that trigger rate changes.²² These discussions will
11 occur over the next year with potential revisions promoted in the next general rate case.

12 As of June 30, 2014, the ERM has a credit balance of approximately \$16.7 million.
13 The ERM balances continue to accrue in the customers' favor, and the balance is projected
14 to be about \$14 million at the end of 2014.²³

15 **C. Rate Spread and Rate Design**

16 **Q. Please describe the electric rate spread and rate design.**

17 A. The Settlement apportions the \$7.0 million electric increase and the
18 attendant \$3.0 million ERM offset to each class on a uniform percentage of revenue
19 consistent with recent previous settlements. The electric rate design includes an increase in
20 the residential basic charge from \$8.00 to \$8.50 per month. The residential schedules'
21 kilowatt-hour charges in the three blocks increase by a uniform percentage. The other

²² Settlement Stipulation at 12, paragraph 22.

²³ Settlement at 4, footnote 6.

1 electric schedules see similar increases in the basic charge, and uniform percentage
2 increases to volumetric charges. Staff accepts this as a reasonable outcome with a slight
3 movement towards parity between the rate schedules.

4 **Q. Please describe the natural gas rate spread and rate design.**

5 A. The Settlement apportions the \$8.5 million gas increase to each class by
6 various percentages as shown in the Settlement Stipulation. The residential basic charge
7 moves up to \$9.00 per month from \$8.00. Other schedules show similar increases in basic
8 charges with volumetric charges increasing on uniform percentages. Staff accepts this as a
9 reasonable outcome.

10 **Q. Does the Settlement include a decoupling mechanism?**

11 A. Yes. Avista's filed case proposes a full decoupling mechanism²⁴ and Staff
12 supports the basics of that mechanism with a few amendments.²⁵ The Settlement accepts a
13 full decoupling mechanism largely in conformity with Staff's proposal. The conditions of
14 the decoupling mechanism are presented in Paragraph 13 beginning at Page 6 through Page
15 8.²⁶ Staff determines this decoupling mechanism complies with the Commission's
16 Decoupling Policy. Staff also determines that the mechanism provides Avista a reasonable
17 opportunity to achieve its target rate of return while removing the incentive to sell more
18 kWh or therms. We recommend approval of the decoupling mechanism as presented.

²⁴ Exhibit No. ____ (PDE-1T) at 49:1 – 54:3.

²⁵ Exhibit No. ____ (TES-1T) at 31:7 – 36:11.

²⁶ See Appendices 4 and 5 for details of the calculations.

1 **D. ERM Retail Revenue Credit**

2 **Q. Does Staff have any specific comments on revising the ERM retail**
3 **revenue credit?**

4 A. Yes. This revision is more fully described in the testimony of Jason Ball.²⁷
5 In reviewing the operation of the retail revenue credit in conjunction with decoupling, Staff
6 determined there was a conflict between the two mechanisms. Avista’s goal in decoupling
7 is to recover all fixed plant costs via a revenue per customer charge, but the use of the
8 ERM retail revenue credit in the decoupling calculation was actually removing production
9 plant from the decoupling mechanism. By revising the retail revenue credit²⁸ to the net
10 variable power costs per kWh, the production plant issue is cured, and also the potential for
11 double over, or under, recovering the variable power costs is avoided. Avista recognized
12 this improvement and the revision is promoted in the settlement.

13 **E. REC Revenues**

14 **Q. Does Staff have any specific comments on returning REC revenues to**
15 **customers?**

16 A. No. Under Settlement Paragraph 5(b), Avista will begin refunding
17 accumulated REC revenues to customers thereby fulfilling Avista’s compliance with the
18 Commission’s policy that REC revenues should be returned to ratepayers.

19

²⁷ Exhibit No. ____ (JLB-1T) at 7:20 – 10:21.

²⁸ “Retail Revenue Credit” is not an accurate term as the result is a debit just as often as a credit. Retail Revenue Adjustment would be more descriptive.

1 **F. Miscellaneous Issues**

2 **Q. Does Staff have any specific comments on deferred accounting for**
3 **Project Compass?**

4 A. Yes. To mitigate the revenue increase for natural gas customers, the parties
5 agree to defer the natural gas service's portion of Project Compass. This project is Avista's
6 replacement of its customer information system. The project's functions now include
7 customer metering, billing and payments, field requests, service and emergency orders, and
8 company operations. The project is partially operational and partially in rate base, but is
9 not expected to be fully operational until early 2015. To that end, there is support for
10 postponing recovery of the project until a later date and the settlement recognizes this
11 option.

12 Specifically, Staff calculates the revenue requirement relating to Project Compass
13 and determines the proportion allocated to Washington's natural gas service. That amount
14 is then deferred for later recovery in rates with interest at a carrying charge of 3.25 percent.
15 The final revenue requirement to be deferred will be determined when the project is in-
16 service. Staff accepts this proposal to mitigate the revenue impact to natural gas customers
17 and recognizes that there will be an impact to rates when it is time to recover the deferral.

18 **Q. Please describe the Lake Spokane Deferral and its treatment in the**
19 **Settlement?**

20 A. The Lake Spokane Deferral was brought to the Commission in Docket UE-
21 131576. To improve problems with dissolved oxygen in Lake Spokane, as required by the

1 license to operate the Spokane River hydroelectric generating plants²⁹, Avista investigated
2 various options. Rather than investing in expensive infrastructure, Avista found a plan that
3 involved ongoing expenses, but no major investments. Avista petitioned to defer those
4 expenses in Docket UE-131576 and the Commission granted that petition until Avista's
5 next rate case, which is now the present case. The deferral will begin its amortization on
6 January 1, 2015, and continue for three years with no interest. The effect of this
7 amortization is included in the agreed upon revenue increase.

8 **Q. Does Staff have any specific comments on the service quality and**
9 **reliability program?**

10 A. Yes. Staff proposed detailed service quality standards in its testimony.³⁰
11 However, there was not a consensus on implementing such standards at this time. The
12 parties do agree with the concept of such standards, but prefer to present a complete
13 package to the Commission at a later date. Staff looks forward to bringing this matter to
14 the Commission before the middle of 2015.

15 **Q. Does Staff have any specific comments on the Low Income Rate**
16 **Assistance Program (LIRAP) modifications and funding?**

17 A. Yes. The Settlement spells out a process to discuss modifications to
18 Avista's LIRAP. Staff particularly desires this process to assure all that the program meets
19 basic goals such as enhancing the ability of low-income customers to stay on the system.
20 The best way to develop an effective assistance program is for all stakeholders to mutually
21 agree on the structure of the program. For the immediate future, the parties accept an

²⁹ Lake Spokane is the reservoir behind the Long Lake Hydroelectric Development on the Spokane River.

³⁰ Cebulko Direct, Exhibit No. ____ (BTC-1T).

1 increase to the gas and electric LIRAP rates of two times the residential rate increase. Staff
2 agrees with both proposals.

3 **Q. Please describe the BPA residential exchange interest rate.**

4 A. Avista agrees to revise the interest rate applied to residual balances between
5 the receipt of the BPA residential exchange monies and the disbursement of the same.
6 Presently, Avista uses its average cost of debt, but will revise that to a money market based
7 interest rate. This will align Avista with the other jurisdictional electric utilities.

8 **III. CONCLUSION**

9 **Q. What is Staff's conclusion with respect to the Settlement?**

10 A. Staff concludes the Settlement is a reasonable resolution to the issues in the
11 case. It will result in rates that are fair, just, reasonable and sufficient for calendar year
12 2015, and it provides Avista appropriate incentives to manage its utility business. Staff
13 recommends the Commission accept the Settlement.

14 **Statement of Public Counsel**

15 **Q. Please explain why Public Counsel believes the Stipulation is in the**
16 **public interest.**

17 A. The Settlement Stipulation is a result of compromises by all Parties and was
18 negotiated as a comprehensive package. Considering the Stipulation as a whole and the
19 issues Public Counsel would have addressed in a fully litigated proceeding, Public Counsel
20 believes it provides a fair and reasonable outcome that is in the public interest.

21 The Stipulation proposes an overall electric revenue increase over base rates of \$7
22 million (1.4%) as opposed to the Company's original request of \$18.2 million (3.8

1 percent). The overall bill impact of the electric increase is further reduced by applying \$3
2 million from the Energy Recovery Mechanism (ERM) deferral balance as an offset to the
3 2015 rate increase. The resulting bill impact to electric customers is an increase of 0.8
4 percent.³¹ The Stipulation also proposes a substantially lower increase to natural gas base
5 rates. The Company requested to increase natural gas rates by \$12.1 million (8.1 percent)
6 and the settlement proposes an overall natural gas rate increase of \$8.5 million (5.6
7 percent).

8 In addition to substantially reducing the electric and natural gas base rate increases,
9 the Stipulation includes several provisions that are in the public interest. First, the
10 Stipulation is neutral on the use of an attrition adjustment in the determination of revenue
11 increases. Second, while the Parties have not agreed on specific capital structure ratios or
12 cost of capital components, a 7.32% rate of return, however, will be used for “Allowance
13 For Funds Used During Construction” (AFUDC) and other purposes, instead of the current
14 7.64 percent used for these purposes. The Stipulation also includes language stating that
15 the resulting revenue increase reflects a reduction in risk associated with the adoption of
16 decoupling. Third, the Stipulation provides for an equal rate spread of the electric revenue
17 increases and a nearly equal rate spread of the natural gas revenue increase across customer
18 groups. Fourth, the Stipulation proposes much lower increases to the residential basic
19 charge for both electric and natural gas service. Fifth, the Stipulation increases the
20 proposed REC revenue rebate from \$7.5 million to \$8.6 million and reaches an agreement

³¹ Electric customers will also be impacted by expiring rebates and the new proposed REC rebate, resulting in a net bill impact of 2.4 percent, inclusive of the increase in base rates provided for in the Stipulation. Under Avista’s filed case, the net bill impact of the rebates and base rate increases would have been 5.5 percent.

1 that REC purchase expenses made in the future to comply with the Energy Independence
2 Act (EIA) should be recovered separately from the REC revenue tracker. Lastly, the
3 Stipulation includes important ratepayer protections associated with the proposed electric
4 and natural gas decoupling mechanisms.

5 **Q. Public Counsel opposed Avista's attrition adjustment. How does the**
6 **Stipulation satisfy Public Counsel's concerns with respect to Avista's request for an**
7 **attrition adjustment in this case?**

8 A. The Stipulation is neutral on the use of an attrition adjustment to reach the
9 agreed upon electric and natural gas increases. This is important to Public Counsel for two
10 key reasons. First, Public Counsel challenged Avista's assertions in this case that it is
11 experiencing attrition. Second, Public Counsel's position in this case and in past cases is
12 that to the extent attrition or regulatory lag is experienced by a utility, there are more
13 appropriate and balanced regulatory tools to address this issue, as are outlined in the
14 prefiled direct testimony of Mr. James Dittmer in this proceeding.³² Because the use of an
15 attrition adjustment is not agreed to in the Stipulation, Public Counsel preserves its ability
16 to advocate for adoption of other regulatory tools to address attrition and regulatory lag.

17 Additionally, the Stipulation recommends the Commission initiate a policy
18 proceeding to address attrition and other ratemaking policy issues. Public Counsel views
19 this as an important opportunity for all parties to engage in a robust discussion on how best
20 to address earnings attrition, and to ultimately receive policy guidance from the
21 Commission on this issue.

³² See Direct Testimony of James Dittmer, Exhibit JRD-1CT.

1 **Q. Please explain why Public Counsel supports the agreement on cost of**
2 **capital in the Stipulation.**

3 A. The Stipulation is a “black box” on the specific capital structure ratios and
4 cost of capital components in this case, with the exception that ROR has been specified for
5 AFUDC and other purposes, including an earnings test related to the proposed decoupling
6 mechanisms. The specified ROR for these purposes is 7.32 percent. While the agreed-to
7 ROR for these purposes is above Public Counsel’s recommendation in this case and what it
8 believes to be the current market based cost of capital, it is within Public Counsel’s range
9 of reasonableness and is a reduction from the Company’s currently authorized ROR of 7.64
10 percent for these purposes, and is therefore acceptable to Public Counsel in an effort to
11 reach a broad settlement of all issues in the case.

12 Another important aspect of the agreement on cost of capital from Public Counsel’s
13 perspective is the acknowledgement of the parties that the revenue increases in this case
14 reflect a reduction in risk associated with the adoption of decoupling. Public Counsel
15 witness Mr. Stephen Hill provides robust evidence in his prefiled direct testimony that
16 decoupling shifts risk from the utility to its customers and that this risk shift should be
17 acknowledged through a downward adjustment to a utility’s cost of capital.³³ While there is
18 no agreement in the Stipulation on a specific decrement to the cost of capital or whether the
19 ROE or equity ratio should be adjusted to account for this risk, there is agreement that
20 decoupling reflects a risk shift and that this has been factored into the overall revenue
21 increase in this case.

³³ See Direct Testimony of Stephen G. Hill, Exhibit SGH-1T, pp. 45-54 and Exhibit SGH-19.

1 **Q. How do the terms in the Stipulation regarding electric and natural gas**
2 **rate spread satisfy the interests of Public Counsel?**

3 A. The agreement on electric and natural gas rate spread was a key driver in
4 reaching an overall settlement agreement for Public Counsel. In this case, proposals by
5 Avista and other intervening parties modified both electric and natural gas cost of service
6 methodologies. The methodology modifications would result in negative rate impacts on
7 residential and small business customers, if accepted by the Commission. Additionally, the
8 rate spread proposals of intervening parties were unfavorable to residential and small
9 business customers.

10 The Stipulation does not include an agreement on a specific electric or gas cost of
11 service methodology, nor approve any change in methodology for use in future rate cases.
12 In addition, the Stipulation provides for an equal percentage increase to electric rate
13 schedules and a natural gas rate spread that is nearly an equal percentage increase but also
14 provides appropriate rate relief to the business customers in rate Schedules 111/112.³⁴
15 Public Counsel supports the agreement on electric and natural gas rate spread as it avoids
16 the potential negative impact for residential and small business customers that would have
17 occurred under the proposals from other parties. The agreement represents a fair and
18 reasonable assignment of revenue responsibility for all customer classes.

19 **Q. How does the Stipulation address Public Counsel’s concern with the**
20 **proposed increases to the electric and natural gas monthly basic charges?**

21

³⁴ Public Counsel witness Mr. Glenn Watkins testified regarding the natural gas cost of service, indicating that Schedules 111/112 should receive lower than system average increases. *See* Direct Testimony of Glenn A. Watkins, Exhibit GAW-1T, pp. 19-20.

1 A. Avista proposed substantial increases to both the electric and natural gas
2 monthly basic charges. For electric, Avista proposed to increase the basic charge from
3 \$8.00 to \$15.00, and for natural gas, Avista proposed to increase the basic charge from
4 \$8.00 to \$12.00. The Stipulation proposes appropriate, smaller increases to the basic
5 charges. For electric service, the Stipulation provides for an increase from \$8.00 to \$8.50.
6 For natural gas service, the Stipulation provides for an increase from \$8.00 to \$9.00.

7 Public Counsel’s analysis in this case demonstrated that an \$8.00 electric fixed
8 customer charge was appropriate and that a \$9.00 natural gas fixed charge was
9 appropriate.³⁵ The Stipulation conforms to Public Counsel’s natural gas basic charge
10 recommendation. The increase to the electric basic charge is only slightly above the \$8.00
11 charge advocated for by Public Counsel. This agreement preserves the important regulatory
12 principle of gradualism while also avoiding additional increases to residential customers
13 above and beyond what is appropriate in this case.

14 **Q. Please explain how the proposed electric and natural gas decoupling**
15 **mechanisms satisfy the interests of Public Counsel.**

16 A. Public Counsel did not oppose Avista’s proposed full electric and natural
17 gas decoupling mechanisms in its direct case, however Public Counsel advocated for a
18 concomitant reduction to the cost of capital to reflect the risk reduction to the utility that
19 accompanies the implementation of decoupling.

20 The Stipulation alters the mechanisms proposed in Avista’s direct case to further
21 exclude certain electric industrial schedules from the electric decoupling mechanism and

³⁵ Public Counsel witness Mr. Glenn Watkins testified regarding the electric and natural gas basic charges in his prefiled direct testimony. See Direct Testimony of Glenn A. Watkins, Exhibit GAW-1T pp. 21-33.

1 natural gas transportation and certain commercial schedules from the natural gas
2 decoupling mechanism. For settlement purposes, Public Counsel agrees to these
3 exemptions, largely because the impact of removing these schedules does not have a rate
4 impact on residential and small business customers, as deferrals for residential customers
5 are tracked separately from other rate groups. Public Counsel also recognizes that the
6 Commission recently approved the exemption of certain electric industrial schedules and
7 natural gas transportation schedules in approving PSE's decoupling mechanisms.³⁶

8 The Stipulation preserves several important ratepayer protections under the
9 decoupling mechanism. The Stipulation includes an agreement that the surcharge cannot
10 exceed 3 percent, consistent with Avista's proposal in its direct case. The Stipulation also
11 includes an earnings test that benefits customers if Avista earns a return greater than 7.32
12 percent.³⁷ If the decoupling mechanism results in a surcharge, the Stipulation requires the
13 Company to reduce the surcharge by one-half of the earned rate of return in excess of 7.32
14 percent. If the decoupling mechanism results in a rebate, the rebate will be increased by
15 one-half of the rate of return in excess of 7.32 percent. Finally, as previously mentioned, it
16 was important to Public Counsel that the Stipulation include and acknowledge that there is
17 a reduction in risk associated with decoupling. The Stipulation also requires Avista to
18 achieve an additional 5 percent in conservation achievement over the conservation target
19 approved by the Commission, beginning with its 2014-2015 biennial target.

³⁶ *In the Matter of the Petition of Puget Sound Energy, Inc. and Northwest Energy Coalition for an Order Authorizing PSE to Implement Electric and Natural Gas Decoupling Mechanisms and to Record Accounting Entries Associated with the Mechanism*, Dockets UE-121697/UG-121705, Order Granting in Part and Denying in Part Petitions for Reconsideration, Order 09 and *Washington Utilities and Transportation Commission v. Puget Sound Energy, Inc.*, Dockets UE-130137 and UG-130138 Order Granting in Part and Denying in Part Petitions for Reconsideration, Order 08.

³⁷ Earnings will be measured using the Company's Commission Basis Report.

1 **Q. Please explain how the Stipulation addresses Public Counsel’s concern**
2 **with the treatment of REC purchases in the REC revenue mechanism.**

3 A. Public Counsel disagreed with the Company’s proposal to include REC
4 purchases in its REC revenue rebate mechanism because these costs are separate and
5 distinct from REC sales revenues. Public Counsel and other parties recommended that
6 REC purchases should be reviewed and recovered in general rates, as appropriate, rather
7 than automatically recovered in the REC revenue tracker.

8 The Stipulation addresses this concern by removing \$725,000 in REC purchases
9 expenses included in the REC revenue tracker. Additionally, the Stipulation contains an
10 agreement that any future REC purchases made for compliance with the EIA be excluded
11 from the REC revenue tracker and included in the determination of base power supply
12 costs in a general rate case. This is a reasonable outcome that provides the Company an
13 opportunity to recover prudently incurred REC purchase costs while preserving the Parties’
14 ability to review these costs in general rate cases going forward.

15 **Q. Are there any other provisions in the Stipulation that Public Counsel**
16 **believes provide benefits to customers?**

17 A. Yes. The Stipulation includes an agreement that Avista will meet with Staff
18 and other interested parties to develop and implement appropriate service quality metrics,
19 customer guarantees and reporting, and the resulting tariff revisions will be filed by June 1,
20 2015. The development of service quality metrics is an important customer protection and
21 Public Counsel fully supports this.

1 The Stipulation also carves out important benefits for Avista’s low-income
2 customers. Electric LIRAP funding will be increased by twice the billed electric residential
3 rate increase (5 percent), and natural gas funding will be increased by twice the billed
4 residential natural gas rate increase (11.6 percent). In addition, under the Stipulation,
5 interested parties will meet to explore additional program options and modifications or
6 additions to the LIRAP program by a date certain.

7 **Q. Does Public Counsel have a recommendation regarding whether the**
8 **Commission should adopt the Settlement Stipulation?**

9 A. Yes. Public Counsel recommends that the Commission approve and adopt
10 the Settlement Stipulation.

11 **Q. Does that conclude your testimony?**

12 A. Yes.

13 **Statement of ICNU**

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

15 A. ICNU supports the Settlement Stipulation because it represents a reasonable
16 outcome for customers. Any settlement is a compromise of positions, and ICNU finds
17 sufficient value for industrial customers in the Settlement Stipulation and the relative bill
18 stability it represents to agree to the rates it would establish. ICNU is also able to join the
19 Settlement Stipulation because it does not include an attrition adjustment and it recognizes
20 the unique characteristics of Schedule 25 and excludes Schedule 25 customers from the
21 decoupling mechanism.

1 **Q. Does the Settlement Stipulation result in rates that are fair, just,**
2 **reasonable and sufficient?**

3 A. Yes. While ICNU opposes constant, excessive rate increases proposed by
4 Avista, the 1.4% increase agreed to in this Settlement Stipulation is fair, just, reasonable,
5 and sufficient.

6 **Q. Does ICNU support the agreement to run an updated power cost**
7 **study?**

8 A. In the specific circumstances of this case, the Settlement Stipulation's
9 inclusion of an updated power cost run on November 1, 2014, is acceptable. Avista has
10 agreed to include at least one of Staff's adjustments in the model run. I have proposed
11 several additional adjustments to refine Avista's power cost modeling, and I encourage the
12 Company to adopt these in its run as well. Importantly, the Settlement Stipulation permits
13 the parties discovery on the power cost update, and preserves the rights of the parties to
14 challenge the prudence of the updated power costs. In addition, the Settlement Stipulation
15 provides for the use of ERM dollars to offset any increased power costs resulting from the
16 update. For these reasons, ICNU supports the use of a November power cost update in this
17 specific case as part of the compromise in the Settlement Stipulation.

18 **Q. Is it appropriate to use ERM dollars to offset the rate increase during**
19 **2015?**

20 A. Yes. The ERM rate adjustment trigger continues to be set at \$30 million,
21 meaning that the use of \$3 million of the existing ERM balance to mitigate the rate
22 increase, in addition to approximately \$6 million or less that may be used to offset any

1 power cost adjustment filed by the Company in November, will not affect the function of
2 the ERM. It is unlikely that customers would ever receive the benefit of an ERM-triggered
3 rate adjustment. On the other hand, the bill relief such rebates represent will be a
4 substantial benefit, particularly in the still-sluggish economy in Avista's service territory.

5 **Q. Does ICNU support the Renewable Energy Credit Mechanism adopted**
6 **by the Settlement Stipulation?**

7 A. Yes. The REC mechanism passes 100% of the value of REC sales back to
8 customers, consistent with the Commission's orders in previous cases. In addition, REC
9 purchases made for compliance with the Energy Independence Act will be properly
10 recovered as base power supply costs.

11 **Q. Does ICNU support the Decoupling Mechanism adopted by the**
12 **Settlement Stipulation?**

13 A. ICNU continues to believe that a decoupling mechanism is not necessary for
14 Avista, but the Parties that would be subject to the decoupling mechanism adopted by the
15 Settlement Stipulation do not oppose it, so neither will ICNU. Schedule 25 is not included
16 in the decoupling mechanism, which is a crucial issue for the Settlement Stipulation to be
17 acceptable to ICNU.

18 **Q. Does exempting Schedule 25 from the Decoupling Mechanism adopted**
19 **by the Settlement Stipulation conform to the Commission's Policy Statement?**

20 A. The Commission's Policy Statement on Regulatory Mechanisms, Including
21 Decoupling (the "Policy Statement") recognizes that there may be circumstances in which
22 some customer classes may not be included in a decoupling mechanism. The Policy

1 Statement provides: “Generally, a full decoupling proposal should cover all customer
2 classes. However, where in the public interest and not unlawfully discriminatory or
3 preferential, the Commission will consider a proposal that would apply to fewer than all
4 customer classes.”³⁸

5 **Q. Please explain why exempting Schedule 25 from the Decoupling**
6 **Mechanism is in the public interest, and not discriminatory or preferential.**

7 A. Exempting Schedule 25 is in the public interest because the unique
8 characteristics of the class make it ill-suited for decoupling. Schedule 25 has very few
9 customers, and is dominated by a single large customer. Accordingly, the changes of an
10 individual customer’s load within the industrial class can have a material impact on the
11 class load as a whole. For example, my pre-filed testimony in this case demonstrated that
12 if the decoupling mechanism were applied to Schedule 25, the loss of a single customer
13 could result in an 80% increase to the overall fixed costs allocated to the remaining
14 customers in that class.³⁹ The loss or reduction of any of the other customers would
15 similarly have a harmful, if less dramatic, effect on the remaining customers in the class.
16 Such intra-class inequity is not in the public interest. On the other hand, the loss of any
17 single customer from the residential class has an imperceptible impact on the costs
18 allocated to other customers, meaning that, as to decoupling, Schedule 25 and other
19 schedules are differently situated in a fundamental way. For this reason it is in the public
20 interest, and neither discriminatory nor preferential to exempt Schedule 25 from

³⁸Re WUTC Investigation into Energy Conservation Incentives, Docket No. 100522, Report and Policy Statement at ¶ 28 (Nov. 4, 2010).

³⁹Exhibit No.__(BGM-1CT) at 37.

1 decoupling.

2 **Q. Are there additional policy reasons for exempting Schedule 25 from**
3 **decoupling in this Settlement Stipulation?**

4 A. Yes. Industrial customers have an economic incentive to pursue all
5 conservation that is feasible and cost effective. The Company's proposed decoupling
6 mechanism, however, would reduce the incentive for industrial customers to participate in
7 energy efficiency. Because these customers, unlike residential customers, can
8 independently impact the level of KWH sales derived from the class as a whole, they may
9 have reduced incentive to be involved in conservation programs (utility or self-funded) if
10 they are aware that doing so will result in an increase in their rates through decoupling.

11 In addition, the Settlement Stipulation adopts a rate design with higher demand
12 charges for Schedule 25 that will recover more of the Company's fixed costs independently
13 from energy usage. This will provide greater revenue stability to Avista and will reduce or
14 eliminate any disincentives the utility has related to energy efficiency programs for
15 Schedule 25 customers.

16 **Q. Why does ICNU support the Settlement proposal's treatment of rate**
17 **spread and rate design?**

18 A. The rate spread proposal adopted by the Settlement Stipulation is acceptable
19 given the wide range of positions that have been taken by the parties. The uniform rate
20 spread adopted by the Settlement Stipulation is a compromise of positions, and is in the
21 public interest.

1 As noted above, the rate design adopted by the Settlement Stipulation is preferable
2 because it obviates the need for revenue decoupling for Schedule 25, and it provides
3 greater revenue stability for Avista while reducing disincentives related to energy
4 efficiency programs for industrial customers. Industrial customers benefit through rate
5 stability, and by avoiding the intra-class inequity that could occur if Schedule 25 were
6 subject to decoupling.

7 **Q. Is the Settlement Stipulation’s treatment of the low income rate**
8 **assistance program (“LIRAP”) finding appropriate?**

9 A. The Settlement Stipulation provides an increase in LIRAP that is consistent
10 with the increases that have been granted since the program was started, but it makes a
11 minor change in how the LIRAP funds are collected by applying the LIRAP rate to the first
12 two energy blocks in Schedule 25.

13 **Q. Does ICNU recommend that the Commission adopt the Settlement**
14 **Stipulation?**

15 A. Yes. For the reasons mentioned above, this Settlement Stipulation is in the
16 public interest, and ICNU recommends that the Commission adopt it.

17 **Statement of NWIGU**

18 **Q. Please explain why NWIGU believes the Settlement Stipulation is in the**
19 **public interest.**

20 A. NWIGU believes the Settlement Stipulation is in the public interest and
21 recommends the Commission approve the settlement because the best interests of Avista’s
22 natural gas customers are served by the underlying fair compromise on certain revenue

1 requirement, rate spread and design issues. While the signing parties may each hold
2 different positions on the individual components of Avista's natural gas revenue
3 requirement addressed in the Settlement Stipulation, NWIGU supports the settlement as
4 the agreement reached has brought down the overall gas revenue requirement increase to
5 \$8.5 million from the \$12.1 million originally requested by Avista. NWIGU supports this
6 Settlement Stipulation as the overall result is a fair compromise between Avista and its
7 customers.

8 NWIGU also finds this Settlement Stipulation to be in the public interest as the
9 spread of the gas rate increase is done in a manner that is consistent with the results of the
10 cost of service analysis performed by NWIGU in this proceeding. Under the Settlement
11 Stipulation, it is important from NWIGU's perspective that Schedule 146 is moved towards
12 its relative cost of service. Moving rates closer to cost is appropriate, and is a significant
13 reason NWIGU supports the Settlement Stipulation. In addition, for Schedule 146 rate
14 design, the Settlement Stipulation calls for increasing the customer charge from \$400 to
15 \$500 per month and applying the same percentage increase to all the volumetric rate
16 blocks. NWIGU support this cost-based rate design for Schedule 146, as well as Avista's
17 proposal to continue excluding that schedule from the decoupling mechanism.

18 NWIGU also finds this Settlement Stipulation to be in the public interest because
19 the agreed-upon revenue increases reflect a reduction in risk associated with the adoption
20 of decoupling. Although the Parties disagree on the impacts decoupling may have on
21 specific components of Avista's rate case, it is important from NWIGU's perspective to
22 have some acknowledgement of the reduction in risk that is associated with decoupling.

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

3 **Statement of The Energy Project**

4 **Q. What is the Energy Project’s interest in this rate case?**

5 A. The Energy Project intervened because we are concerned that increases in
6 utility rates and charges make it more difficult for low-income households to afford electric
7 or natural gas services in their homes. When they can’t pay, some part of the cost gets
8 transferred to other ratepayers.

9 **Q. What particular concerns did you have with the Company’s rate**
10 **request?**

11 A. Increases in residential rates are always a concern for us since such
12 increases make it more difficult for low-income households to afford service. In addition
13 to a sizable rate increase for both electric and gas services, Avista was requesting increases
14 for the monthly charges – nearly double in the case of electric services and a 50% increase
15 in the case of natural gas.

16 **Q. Were those increases all you were concerned about?**

17 A. No. In the course of the case, UTC Staff submitted testimony proposing to
18 take “surplus” funds from the existing Low-Income Rate Assistance Program (LIRAP) to
19 create a rate discount program.

20 **Q. Do you object to taking money from LIRAP?**

1 A. Yes, there are no “surplus” funds in LIRAP, and the proposed program
2 design could create operational difficulties for the agencies that deliver the services to low-
3 income customers.

4 **Q. The rate discount proposal sounds familiar, is this the first time such a**
5 **program has been proposed?**

6 A. No, Staff made a similar proposal in the last rate case.

7 **Q. How did the Commission respond in instance?**

8 A. The Commission ordered the Company to investigate the program and file
9 and make changes, if needed, in the current rate case.

10 **Q. Did the Company follow through on that?**

11 A. The Company circulated a pretty extensive survey and held a meeting at
12 which a number of other Washington utilities described their programs.

13 **Q. Did the Company file a request to make any changes to the program as**
14 **a result?**

15 A. No they did not.

16 **Q. And why didn't they?**

17 A. I can only assume that they didn't think any changes were needed.

18 **Q. What is different in this settlement that caused you to agree to it?**

19 A. This settlement requires a third-party facilitated work group to meet every
20 two months to examine the existing program for modifications and consider additions that
21 might improve the program. It also sets a schedule for filing modifications or additions to
22 the program.

1 **Q. Why did this make a difference?**

2 A. It made a difference to us because it provides both the time and time
3 commitment by parties to consider changes in context. As we stated in our support
4 testimony for the settlement in the last case, we are not averse to change; we just believe
5 that change must be carefully considered. (Joint Settlement Testimony of Charles M.
6 Eberdt, UE-120436/UG-120437, p. 2-3.) The LIRAP program doesn't exist in a vacuum; it
7 needs to work with the federal assistance program and respond to the conditions that the
8 agencies see, which are different from agency to agency. We believe the Staff's proposal
9 could have inadvertently resulted in fewer people getting assistance and make it more
10 expensive for agencies to run the programs. We know this is not Staff's intention. The
11 work group will give us the opportunity to use the expertise of people who are on the
12 ground implementing programs while exploring different ways to serve low-income
13 customers. We hope it will mean serving more customers, reaching customers we don't
14 currently help, and perhaps even reducing some of the arrears or bad debt the utility sees.

15 **Q. Doesn't this settlement also increase the funding for LIRAP as well?**

16 A. Yes, there is a small increase in the LIRAP funding for both gas and electric
17 customers. The increase for natural gas LIRAP funding of 11.6% or \$214,000 is twice the
18 residential rate increase. The increase for LIRAP electric is twice the residential rate
19 increase, or 5% for \$200,000.

20 **Q. Will this allow the agencies to serve more customers?**

21 A. A back of the envelope calculation suggests, all other things being roughly
22 compensatory, we would be able to help more than 400 additional households. The actual

1 number would be determined by the mix of LIRAP Heat, Seniors, and LIRAP Share
2 participants, which provide different levels of benefit.

3 **Q. What other elements of the settlement were consideration for the**
4 **Energy Project?**

5 A. When the Company filed their case, they proposed increasing the basic
6 monthly electric charge for residential customers from \$8 to \$15, a whopping 88%. The
7 proposed increase to the natural gas basic monthly charge from \$8 to \$12, while smaller,
8 was still a 50% increase. The low-income household that uses both gas and electricity
9 would have had to come up with more than \$130 in an additional payment annually just to
10 stay connected, without using any electricity or gas. We view the settlement levels for the
11 monthly charges, \$8.50 for electricity and \$9.00 for natural gas to be a much better result.

12 **Q. Would you please summarize your position on the settlement in this**
13 **case?**

14 A. The Energy Project supports the settlement because the resulting rate
15 increases are more modest than originally proposed, the monthly basic charges are much
16 lower than what was proposed, there are modest increases to the LIRAP funding to
17 compensate for the rate increases, and a clear, scheduled process with an adequate time
18 frame is initiated to examine improvements to the provisions of utility-funded bill payment
19 assistance. For these reasons, we believe the settlement is fair, just, reasonable, and in the
20 best interest of Avista's ratepayers.

21 **Q. Does that conclude your testimony?**

22 A. Yes, it does.

23

IX. CONCLUSION

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

- A. This Stipulation should be approved for the following reasons:
- It strikes a reasonable balance between the interests of the Company and its customers, including its low-income customers. As such, it represents a reasonable compromise among differing interests and points of view.
 - The filing has been subjected to great scrutiny through the discovery process: approximately seven months have passed since the case was filed and the Company has responded to over 500 data requests.
 - Ample opportunity has been afforded all Parties to participate meaningfully in the settlement process.
 - In the final analysis, any settlement reflects a compromise, in the give-and-take of negotiations; the Commission, however, has before it a Settlement Stipulation that is supported by sound analysis and sufficient evidence. Its approval is “in the public interest,” and satisfies the requirement that rates be fair, just, reasonable and sufficient.

Q. Are there legal standards that must be satisfied with respect to any settlement?

A. Yes. The Commission’s charge is to regulate in the public interest. The settlement, if approved, must result in rates that are fair, just, reasonable and sufficient. (RCW 80.28.010) As such, the Commission must not only assure fair prices and services to customers, but also “...provide the utility with rates sufficient to cover its prudently incurred costs and an opportunity to recover a return on its investment.” (WUTC v Avista Corporation, Docket Nos. UE-050482/UG-050483, Order No. 05 (December 21, 2005) at p. 10.) In the final analysis, it is the “end result” that matters, not the methods by which

1 rates are determined. (Id., at p.11) The settlement represents the Parties' best efforts at
2 arriving at an end result that satisfies these requirements.

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

4 A. Yes it does.