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**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

IN THE MATTER OF THE APPLICATION ) CASE NO. AVU-G-17-01  
OF AVISTA CORPORATION FOR THE )  
AUTHORITY TO INCREASE ITS RATES )  
AND CHARGES FOR ELECTRIC AND )  
NATURAL GAS SERVICE TO ELECTRIC ) DIRECT TESTIMONY  
AND NATURAL GAS CUSTOMERS IN THE ) OF  
STATE OF IDAHO ) JOSEPH D. MILLER  
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FOR AVISTA CORPORATION

(NATURAL GAS ONLY)

1 I. INTRODUCTION

2 **Q. Please state your name, business address and**  
3 **present position with Avista Corporation.**

4 A. My name is Joseph D. Miller. My business address  
5 is 1411 East Mission Avenue, Spokane, Washington. I am  
6 employed as a Senior Regulatory Analyst in the State and  
7 Federal Regulation Department.

8 **Q. Would you briefly describe your**  
9 **responsibilities?**

10 A. Yes. I am responsible for preparing and  
11 maintaining the natural gas cost of service models for the  
12 Company. I also provide support in the preparation of  
13 revenue analysis, rate spread and rate design, and  
14 miscellaneous other duties as required.

15 **Q. Please describe your educational background and**  
16 **professional experience.**

17 A. I am a 1999 graduate of Portland State University  
18 with a Bachelors degree in Business Administration, majoring  
19 in Accounting. In 2005 I graduated from Gonzaga University  
20 with a Masters degree in Business Administration. I joined  
21 the Company in March 2008 after spending eight years in both  
22 the public and private accounting sector. I started with  
23 Avista as a Natural Gas Accounting Analyst in the Company's  
24 Resource Accounting Department. In January 2009, I joined

1 the State and Federal Regulation Department as a Regulatory  
2 Analyst. My primary responsibility was coordinating  
3 discovery for the Company's general rate case filings. In  
4 my current role as a Senior Regulatory Analyst, I am  
5 responsible for the Company's natural gas cost of service  
6 studies and revenue adjustments in all jurisdictions.

7 **Q. What is the scope of your testimony in this**  
8 **proceeding?**

9 A. My testimony and exhibits will cover the Company's  
10 natural gas revenue normalization adjustments and cost of  
11 service study performed for this proceeding. A table of  
12 contents for my testimony is as follows:

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19 **Q. Are you sponsoring any Exhibits in this case?**

20 A. Yes. I am sponsoring Exhibit No. 15, Schedule 1  
21 which includes a narrative of the natural gas cost of service  
22 study process, and Schedule 2, the natural gas cost of  
23 service study summary results.

24 **Q. Were these Exhibits prepared by you or under your**  
25 **direction?**

1 A. Yes they were.

2

3 **II. NATURAL GAS REVENUE NORMALIZATION**

4 **Q. Would you please describe the natural gas revenue**  
5 **adjustment included in Company witness Ms. Andrews' pro**  
6 **forma results of operations?**

7 A. Yes. Similar to the electric revenue  
8 normalization adjustment, sponsored by Company witness Ms.  
9 Knox, the natural gas revenue normalization adjustment  
10 represents the difference between the Company's actual  
11 recorded retail revenues during the 12-months ended December  
12 2016 test period, and retail revenues on a normalized (pro  
13 forma) basis. The adjustment includes the re-pricing of pro  
14 forma sales and transportation volumes at present rates  
15 using pro forma sales volumes that have been adjusted for  
16 unbilled sales, abnormal weather, and any material customer  
17 load or schedule changes. The rates used exclude: 1)  
18 Purchase Gas Cost Adjustment Schedule 150, which reflects  
19 the costs related to purchasing and transporting natural gas  
20 approved in the Company's last PGA filing, 2) Temporary Gas  
21 Rate Adjustment Schedule 155, which reflects the approved  
22 amortization rate for prior deferred natural gas costs

1 approved in the Company's last PGA filing, and 3) Demand  
2 Side Management Rate Adjustment Schedule 191.<sup>1</sup>

3 **Q. Does the Revenue Normalization Adjustment contain**  
4 **a component reflecting normalized natural gas costs?**

5 A. No, natural gas commodity costs have been removed  
6 from the Company's filing.

7 **Q. Have you determined the impact of each of the**  
8 **components of this adjustment?**

9 A. Yes. The net operating income impact for each of  
10 the components is as follows:

11 1. Re-pricing of base distribution revenue increased  
12 net operating income by \$206,000.

13 2. Re-pricing base distribution unbilled revenue  
14 decreased net operating income by \$149,000,

15 3. The weather adjustment at present base rates  
16 increased net operating come by \$1,597,000.

17 4. The elimination of the deferred decoupling revenue  
18 decreased net operating income by \$1,360,000

19 The total net amount of the natural gas revenue  
20 normalization adjustment is an increase to net operating  
21 income of \$294,000, as shown in adjustment column 2.07, on  
22 page 7 of Ms. Andrews Exhibit No. 12, Schedule 2.

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<sup>1</sup> Documentation related to this adjustment is detailed in my workpapers accompanying this case.

1           **Q.    Would you please briefly discuss natural gas**  
2 **weather normalization?**

3           A.    Yes.    The natural gas weather normalization  
4 adjustment is developed from a regression analysis of ten  
5 years of billed usage per customer and billing period heating  
6 degree-day data.  The resulting seasonal weather sensitivity  
7 factors (use-per-customer-per-heating-degree day) are  
8 applied to monthly test period customers, and the difference  
9 between normal heating degree-days and monthly test period  
10 observed heating degree-days.  This calculation produces the  
11 change in therm usage required to adjust existing loads to  
12 the amount expected if weather had been normal.

13           **Q.    In the discussion of electric weather**  
14 **normalization sponsored by Ms. Knox, she indicated that the**  
15 **adjustment utilized sensitivity factors from the 10-year**  
16 **period January 2006 through December 2015.  Is this true for**  
17 **natural gas as well?**

18           A.    Yes, the natural gas weather adjustment utilized  
19 weather sensitivity factors for the same 10-year period.

20           **Q.    What data did you use to determine "normal"**  
21 **heating degree days?**

22           A.    Normal heating degree-days are based on a rolling  
23 30-year average of heating degree-days reported for each  
24 month by the National Weather Service for the Spokane Airport

1 weather station. Each year the normal values are adjusted  
2 to capture the most recent year with the oldest year dropping  
3 off, thereby reflecting the most recent information  
4 available at the end of each calendar year. The calculation  
5 includes the 30-year period from 1987 through 2016.

6 **Q. Is this proposed weather adjustment methodology**  
7 **consistent with the methodology utilized in the Company's**  
8 **last general rate case in Idaho?**

9 A. Yes. The process for determining the weather  
10 sensitivity factors and the monthly adjustment calculation  
11 is consistent with the methodology presented in Case No.  
12 AVU-G-15-01.

13 **Q. What was the impact of natural gas weather**  
14 **normalization on the 12-months ended December 2016 test**  
15 **year?**

16 A. Weather was warmer than normal during the January  
17 2016 through December 2016 period. The adjustment to normal  
18 required the addition of 766 heating degree-days from  
19 January through June and October through December.<sup>2</sup> The  
20 adjustment to sales volumes was an addition of 5,978,311  
21 therms which is approximately 4.7% of total billed usage.

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<sup>2</sup> Heating degree days that occur during July through September do not impact the natural gas weather normalization adjustment as the seasonal sensitivity factor is zero for summer months.

1 III. NATURAL GAS COST OF SERVICE

2 **Q. Please describe the natural gas cost of service**  
3 **study and its purpose.**

4 A. A natural gas cost of service study is an  
5 engineering-economic study which separates the revenue,  
6 expenses, and rate base associated with providing natural  
7 gas service to designated groups of customers. The groups  
8 are made up of customers with similar usage characteristics  
9 and facility requirements. Costs are assigned in relation  
10 to each group's test year load and facilities requirements,  
11 resulting in an evaluation of the cost of the service  
12 provided to each group. The rate of return by customer group  
13 indicates whether the revenue provided by the customers in  
14 each group recovers the cost to serve those customers. The  
15 study results are used as a guide in determining the  
16 appropriate rate spread among the groups of customers.  
17 Exhibit No. 15, Schedule 1 explains the basic concepts  
18 involved in performing a natural gas cost of service study.  
19 It also details the specific methodology and assumptions  
20 utilized in the Company's Base Case cost of service study.

21 **Q. What is the basis for the natural gas cost of**  
22 **service study provided in this case?**

23 A. The cost of service study provided by the Company  
24 as Exhibit No. 15, Schedule 2 is based on the 12-months ended

1 December 2016 test year pro forma results of operations  
2 presented by Ms. Andrews in Exhibit No. 12, Schedule 2.

3 **Q. Would you please explain the natural gas cost of**  
4 **service study presented in Schedule 2?**

5 A. Yes. Exhibit No. 15, Schedule 2 is composed of a  
6 series of summaries of the cost of service study results.  
7 Page 1 shows the results of the study by FERC account  
8 category. The rate of return and the ratio of each  
9 schedule's return to the overall return are shown on lines  
10 38 and 39. This summary is provided to Company witness Mr.  
11 Ehrbar for his consideration regarding rate spread and rate  
12 design. The results will be presented later in my testimony.  
13 Additional summaries show the costs organized by functional  
14 category (page 2) and classification (page 3), including  
15 margin and unit cost analysis at current and proposed rates.  
16 Finally, page 4 is a summary identifying specific customer-  
17 related costs embedded in the study.

18 The Excel model used to calculate the natural gas cost  
19 of service and supporting schedules has been included in its  
20 entirety both electronically and hard copy in the natural  
21 gas workpapers accompanying this case.

22 **Q. Does the Natural Gas Base Case cost of service**  
23 **study utilize the methodology from the Company's last**  
24 **natural gas case in Idaho?**

1           A.    Yes, the Base Case cost of service study was  
2 prepared using the same methodology applied to the study  
3 presented in Docket No. AVU-G-15-01.

4           **Q.    What are the key elements that define the cost of**  
5 **service methodology?**

6           A.    Underground storage costs are allocated by  
7 normalized winter throughput. Natural gas main investment  
8 has been segregated into large and small mains. Large usage  
9 customers that take service from large mains do not receive  
10 an allocation of small mains. System facilities that serve  
11 all customers are classified by the peak and average ratio  
12 that reflects the system load factor, then allocated by  
13 coincident peak demand and throughput, respectively. Meter  
14 installation and services investment is allocated by number  
15 of customers weighted by the relative current cost of those  
16 items. General plant is allocated based on the Company's  
17 blended four-part factor allocator (four-factor).  
18 Administrative & general expenses are segregated into labor-  
19 related, plant-related, revenue-related, and "other". The  
20 costs are then allocated by factors associated with labor,  
21 plant in service, or revenue, respectively. The "other" A&G  
22 amounts are allocated based on the Company's four-factor. A  
23 detailed description of the methodology is included in  
24 Exhibit No. 15, Schedule 1.

1 **IV. RESULTS**

2 **Q. What are the results of the Company's natural gas**  
3 **cost of service study?**

4 A. The Base Case cost of service study presented in  
5 this filing we believe provides a fair representation of the  
6 costs to serve each customer group. The study indicates  
7 that the General Service Schedule 101 (serving most  
8 residential customers) is providing less than the overall  
9 rate of return (unity), and Large General, and  
10 Transportation service schedules (111/112 and 146) are  
11 providing more than unity. The following Table No. 1 shows  
12 the rate of return and the relative return ratio at present  
13 rates for each rate schedule:

14 **Table No.1:**

15 **Base Case Results**

<u>Customer Class</u>	<u>Rate of Return</u>	<u>Return Ratio</u>
General Service Schedule 101	4.68%	0.86
Large General Service Schedule 111/112	9.33%	1.71
Transportation Schedule 146	6.36%	1.17
Total Idaho Natural Gas System	5.46%	1.00

20 The summary results of this study were provided to Mr.  
21 Ehrbar for consideration in the development of the proposed  
22 rates.

1           Q.   Does this conclude your pre-filed direct  
2 testimony?

3           A.   Yes.