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IDAHO PUBLIC UTILITIES COMMISSION

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**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

IN THE MATTER OF THE APPLICATION	)	CASE NO. AVU-E-19-0 <sub>4</sub>
OF AVISTA CORPORATION FOR THE	)	CASE NO. AVU-G-19-0 <sub>3</sub>
EXTENSION OF AVISTA'S ELECTRIC	)	
AND NATURAL GAS FIXED COST	)	
ADJUSTMENT MECHANISMS IN THE	)	DIRECT TESTIMONY
STATE OF IDAHO	)	OF
	)	PATRICK D. EHRBAR
	)	

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

1 **I. INTRODUCTION**

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

4 A. My name is Patrick D. Ehrbar and my business address is 1411 East Mission  
5 Avenue, Spokane, Washington. I serve as the Director of Regulatory Affairs for Avista.

6 **Q. Would you briefly describe your educational background and**  
7 **professional experience?**

8 A. Yes. I am a 1995 graduate of Gonzaga University with a Bachelors degree  
9 in Business Administration. In 1997 I graduated from Gonzaga University with a Masters  
10 degree in Business Administration. I started with Avista in April 1997 as a Resource  
11 Management Analyst in the Company's Demand Side Management (DSM) department.  
12 Later, I became a Program Manager, responsible for energy efficiency program offerings  
13 for the Company's educational and governmental customers. In 2000, I was selected to be  
14 one of the Company's key Account Executives, where I was responsible for, among other  
15 things, being the primary point of contact for numerous commercial and industrial  
16 customers.

17 I joined the State and Federal Regulation Department as a Senior Regulatory  
18 Analyst in 2007. Responsibilities in that role included being the discovery coordinator for  
19 the Company's rate cases, line extension policy tariffs, as well as miscellaneous regulatory  
20 issues. In November 2009, I was promoted to Manager of Rates and Tariffs, and later  
21 promoted to be Senior Manager of Rates and Tariffs. My primary areas of responsibility  
22 included electric and natural gas rate design, power cost and natural gas rate adjustments,  
23 customer usage and revenue analysis, and tariff administration. In October 2017, I was  
24 promoted to my present position.



1 uncertain financial impacts from evolving customer choice in the future. The Company  
2 believes that the FCA Mechanisms continue to be in the public interest, promote increased  
3 conservation and customer choice as it relates to self-generation, and result in fair, just,  
4 reasonable, and sufficient rates.

5 **Q. Are you sponsoring any exhibits that accompany your testimony?**

6 A. Yes. I am sponsoring Exhibit No. 1 which is the “Avista Decoupling  
7 Evaluation – Final Report” prepared by H. Gil Peach & Associates LLC. I am also  
8 sponsoring Exhibit No. 2, a copy of the PowerPoint presentation from the FCA Workshop  
9 held at the Idaho Public Utilities Commission on March 27, 2019. A table of contents for  
10 my testimony is as follows:

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**II. BACKGROUND**

21 **Q. Would you please provide the background of the Company’s electric  
22 and natural gas FCA Mechanisms?**

23 A. Yes. On December 18, 2015, the Commission issued Order 33437 in Case  
24 Nos. AVU-E-15-05 and AVU-G-15-01, approving a Settlement Stipulation (“Stipulation”).  
25 Included in the approved Stipulation were electric and natural gas FCA Mechanisms, which  
26 went into effect on January 1, 2016 for a three year term through December 31, 2018. Later,

1 in Order 34085, the Commission extended the mechanisms through December 31, 2019, so  
2 as to allow “Staff and interested parties additional information and recommendations from  
3 the third-party evaluation of Avista’s decoupling mechanism in Washington along with an  
4 additional year of data”.<sup>2</sup>

5 **Q. Before proceeding further, when you discuss FCA Mechanisms in**  
6 **Idaho, are those similar in almost all respects to the Company’s Decoupling**  
7 **Mechanisms in Washington and Oregon?**

8 A. Yes. But for small differences in mechanism mechanics, the Company’s  
9 Decoupling Mechanisms in Washington and Oregon are almost identical to the FCA  
10 Mechanisms in Idaho. In our view, the term FCA, or Fixed Cost Adjustment, is  
11 synonymous with the term decoupling.

12 **Q. Did the Company contract with an independent, third-party to evaluate**  
13 **its Decoupling Mechanisms in the State of Washington?**

14 A. Yes. As part of the approval of the Company’s Decoupling Mechanisms in  
15 Washington, the Washington Utilities and Transportation Commission (WUTC) required a  
16 third-party evaluation, paid for by Avista shareholders, to be completed by the end of the  
17 third full-year (2018) of the implementation of those mechanisms.

18 The WUTC required the Company to consult with its Energy Efficiency Advisory  
19 Group (“Advisory Group”) in the development of the Request for Proposals (RFP) and the  
20 selection of the consultant to perform the evaluation. After incorporating input from the  
21 Advisory Group (which includes members of Idaho Commission Staff, the Idaho  
22 Conservation League, and the Community Action Partnership Association of Idaho), Avista  
23 was required to file its draft RFP, including the scope of the evaluation query, with the

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<sup>2</sup> Order 34085, p. 1.

1 WUTC for approval. At a minimum, the evaluation was to address decoupling's effect on  
2 revenues, its impact on conservation, the extent to which the allowed revenues are  
3 recovering their allocated cost of service by customer class, and the extent to which fixed  
4 costs are recovered in fixed charges for the customer classes excluded from the Washington  
5 Decoupling Mechanisms.

6 The Company filed its draft RFP on June 1, 2017 with the WUTC. In preparation  
7 of completing the draft RFP, the Company engaged with the Advisory Group in the  
8 development of the RFP over the course of several months and included all requested edits,  
9 modifications, and suggestions into the RFP document. On July 13, 2017, the WUTC  
10 approved the Company's Request for Proposals.

11 Upon the WUTC's approval of the RFP, the Company issued the approved RFP to  
12 a group of consultants that were shared with the Advisory Group. H. Gil Peach &  
13 Associates was ultimately selected as the consultant for this project. In addition to meeting  
14 the requirements set forth in the Statement of Work contained within the RFP, H. Gil Peach  
15 & Associates had recently completed a similar decoupling evaluation for Puget Sound  
16 Energy, which in the Company's view, added to their qualifications.

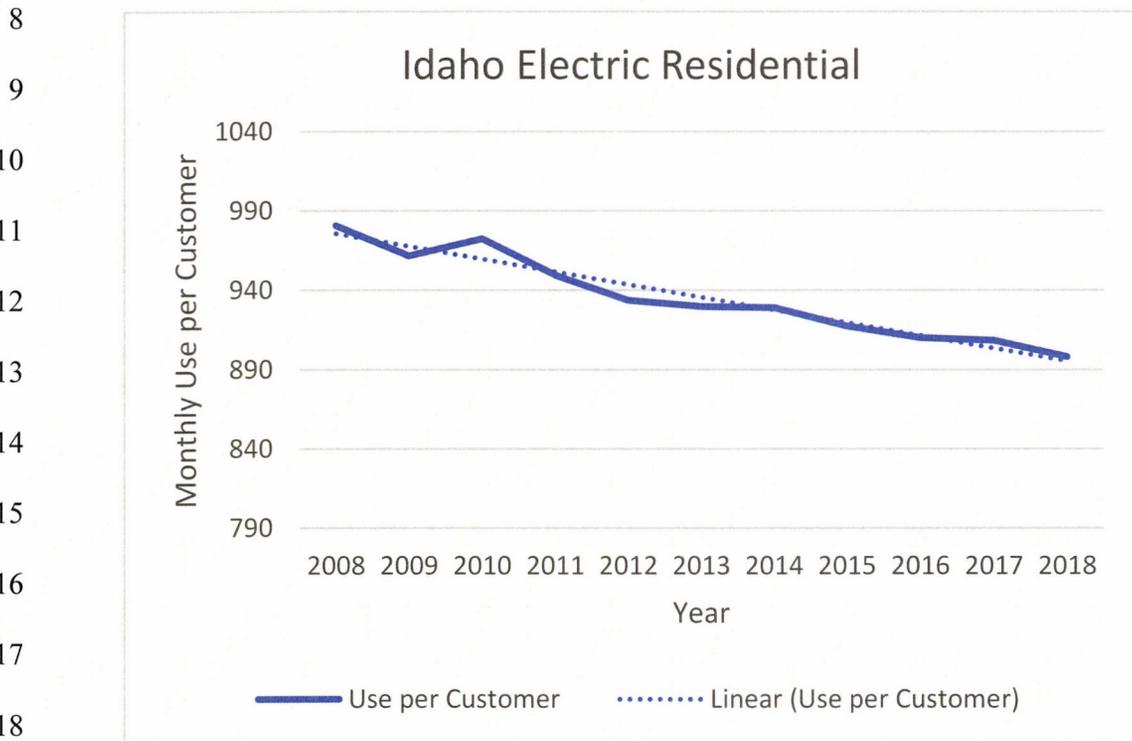
17 On October 1, 2018 the Company filed the final report conducted by H. Gil Peach  
18 & Associates with the WUTC, as well as provided the report to the Advisory Group  
19 (including the Idaho Advisory Group participants). The final report, labeled "Avista  
20 Decoupling Evaluation – Final Report" ("Independent Final Report"), is included as  
21 Exhibit No. 1.

22 **Q. Prior to preparing this filing, did the Company seek input from Idaho**  
23 **Commission Staff and interested parties as to potential modifications to the FCA**  
24 **Mechanisms?**

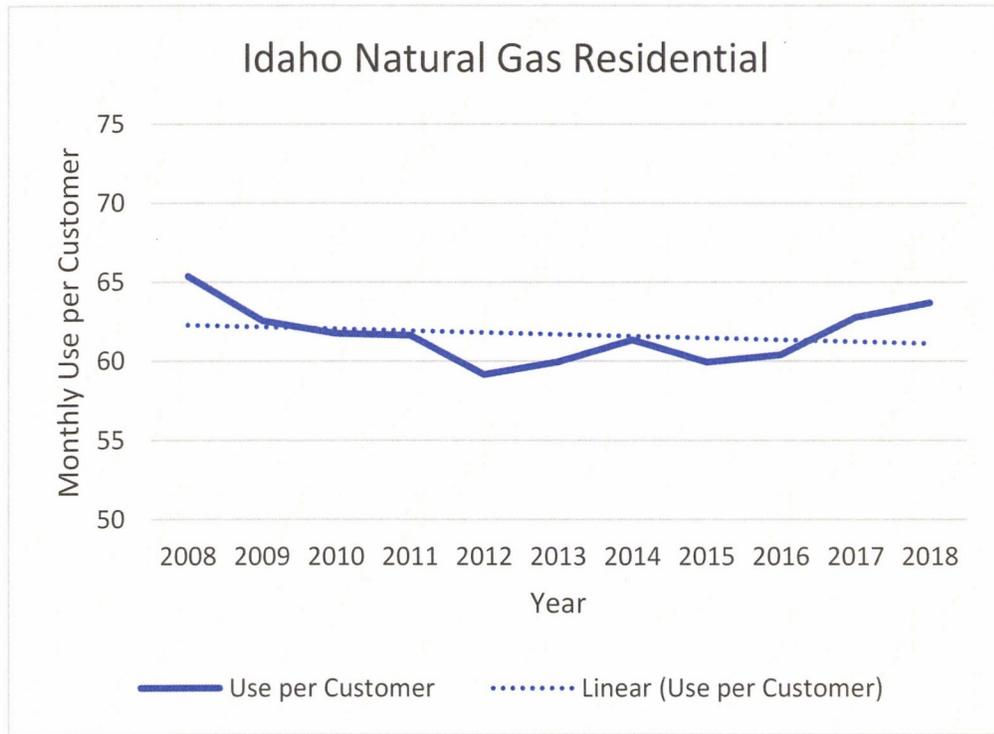


1 Said another way, the FCA is a mechanism designed to sever the link between a  
2 utility's revenues and consumers' energy usage. These mechanisms remove the so-called  
3 throughput incentive and promote more aggressive pursuit of cost-effective conservation.  
4 As shown in Illustration Nos. 1 and 2 below for both electric and natural gas residential  
5 customers, Avista has continued to see a decline in use-per-customer for the past several  
6 years which is illustrative of the need and importance of the FCA Mechanisms:

7 **Illustration No. 1: Electric Residential Use-Per-Customer**



1 **Illustration No. 2: Natural Gas Residential Use-Per-Customer**



13 Absent the FCA Mechanisms, in periods of declining use-per-customer similar to  
14 what the Company has experienced on the electric side, Avista would under-recover its  
15 fixed costs of providing service to its customers in the periods in between general rate case  
16 filings (given that a majority of the Company's fixed costs are recovered in variable energy  
17 rates). To the extent use-per-customer declines from programmatic and non-programmatic  
18 DSM, or distributed generation resources between general rates cases, the FCA  
19 Mechanisms provide the Company recovery of its fixed costs for providing service to its  
20 customers. These are the same fixed costs, on a revenue-per-customer basis, that the  
21 Commission approves for recovery in a general rate case.

22 In addition, the FCA Mechanisms ensure that to the extent there is customer growth  
23 in the rate year and beyond, the revenues are available to offset the growth in utility costs  
24 following the test year. By allowing the Company to recover a significant portion of its

1 fixed costs of providing service, the Company is able to maintain its central focus of being  
2 a trusted energy advisor to its customers without uncertainty as to the financial impact  
3 customer choice may have on the Company.

4 **Q. What comments do you have related to the weather-normalized**  
5 **increasing use-per-customer for natural gas?**

6 A. As you can see in Illustration No. 2, use-per-customer coming out of the  
7 Great Recession has actually been increasing. Absent the natural gas FCA Mechanism, the  
8 increase in revenue would have accrued to the Company and the bottom line. That is not  
9 Avista's objective, however. As we have said from the outset, our goal is to simply have  
10 the opportunity to recover the fixed costs of providing service to customers, on a per-  
11 customer basis, no more and no less. We believe it is still imperative to maintain a natural  
12 gas FCA as well.

13 **Q. Would you say that the FCA Mechanisms have provided benefits to**  
14 **both the Company and its customers?**

15 A. Yes. As further detailed in the analysis provided in the Independent Final  
16 Report, the FCA Mechanisms have proven to be a vital and meaningful program for both  
17 the Company and its customers. Not only has the program accomplished its original  
18 objectives of removing the disincentive for the Company to promote the efficient end-use  
19 of energy through conservation, it has also been beneficial to customers in times of a colder  
20 than normal winter, or a hotter than normal summer, when the Company has returned those  
21 additional revenues back to customers. As described by the Alliance To Save Energy:<sup>4</sup>

22 As consumers broadly engage in energy efficiency, all ratepayers may  
23 benefit as the high costs of new power plants, transmission lines and  
24 pipelines may be reduced or avoided. [FCA Mechanisms] may also reduce  
25 volatility in energy bills due to weather and other factors, and it reduces

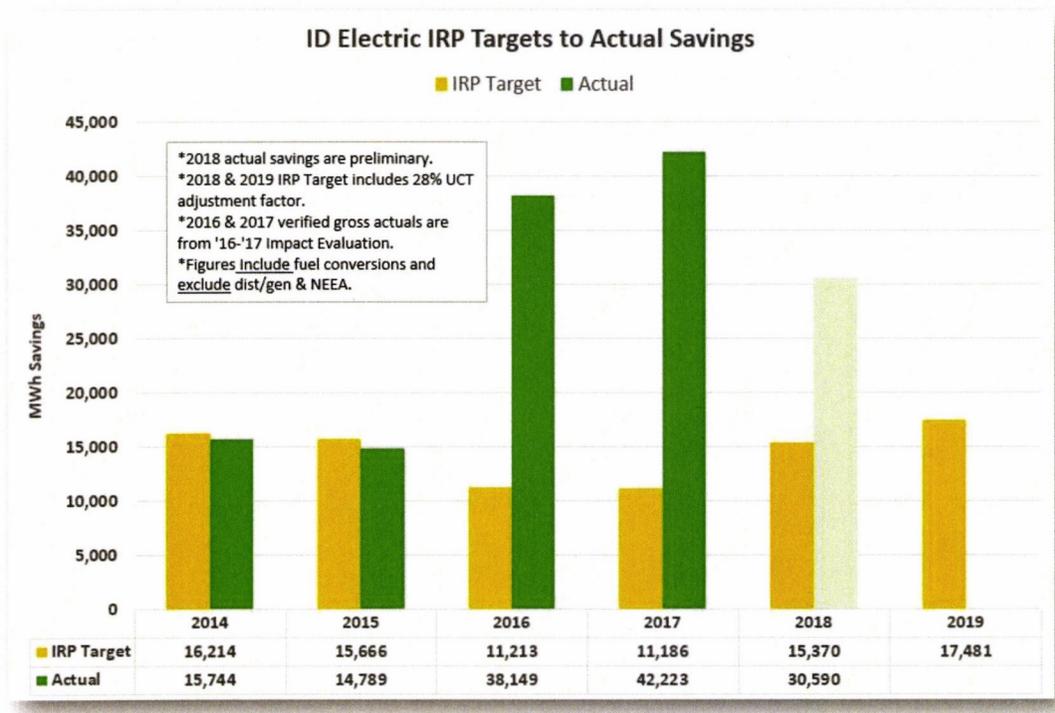
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<sup>4</sup> [www.ase.org/resources/utility-rate-decoupling-0](http://www.ase.org/resources/utility-rate-decoupling-0)

1 risk for utilities too. It preserves customers' incentive for efficiency while  
 2 removing utilities disincentives.  
 3

4 The Company has demonstrated, in a number of filings before this Commission,  
 5 that it has been aggressively pursuing all cost-effective conservation for a number of years.  
 6 The Company actively promotes technologies that are cost-effective, reliable, and feasible,  
 7 with the goal of meeting and exceeding its required targets. As shown in Illustration No. 3  
 8 below, the Company has exceeded its electric energy efficiency targets in each year since  
 9 the FCA was approved, as compared to the two prior years where we did not meet our IRP  
 10 target:

11 **Illustration No. 3: Electric Energy Efficiency Achievement**



22  
 23 As can be seen in the Illustration No. 3 above, the Company achieved results  
 24 relatively close to our IRP Target in 2014 and 2015. However, beginning in 2016, and  
 25 continuing in 2017 and 2018, Avista achieved results well in excess of its IRP target.

1           **Q.     Is the presence of the FCA Mechanisms the reason why the Company**  
2 **was able to exceed its goals in 2016 through 2018?**

3           A.     What the FCA Mechanisms do is remove any disincentive towards energy  
4 efficiency. Since the implementation of the FCA, internal discussions regarding the merits  
5 of energy efficiency, the “lost margin” associated with losing our own business, and like  
6 conversations, have ceased. Avista always had an energy efficiency mindset; that has  
7 grown under the presence of the FCA Mechanisms. The Independent Final Report came  
8 to a similar conclusion regarding decoupling’s role in energy conservation in Washington:

9           Decoupling is not a driver for energy conservation. But it facilitates pursuit  
10 of all cost-effective energy conservation in accord with Commission  
11 direction. Anyone who has been present in a non-decoupled utility when a  
12 planned program budget cap is reached has heard staff telling customers  
13 that the budget cap has been reached, so they should consider tracking when  
14 the program will reopen in the next year and get their application in  
15 immediately. From experience, we have seen major programs (elsewhere)  
16 that are open for applications for one or two days a year. With decoupling,  
17 that barrier is removed...to pursue all cost effective conservation.<sup>5</sup>  
18

19           **Q.     Are there similar energy efficiency results on the natural gas side of the**  
20 **business?**

21           A.     There are similar results for natural gas energy efficiency programs. Of  
22 course the Company did not have programs in 2014 and 2015, but as can be seen in  
23 Illustration No. 4 below, the Company greatly exceeded its IRP Target for natural gas  
24 efficiency in 2016 and 2017. For 2018, the results have not yet been verified by an external  
25 third party, but it appears that the Company missed its target that year. On the whole,  
26 though, over the life of the natural gas FCA, from 2016 through 2018 the Company in total  
27 greatly exceeded its IRP targets, on a cumulative basis.

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<sup>5</sup> Exhibit No. 1 - Avista Decoupling Evaluation – Final Report, H. Gil Peach & Associates LLC p. 6-10.

1 **Illustration No. 4: Natural Gas Efficiency Achievement**

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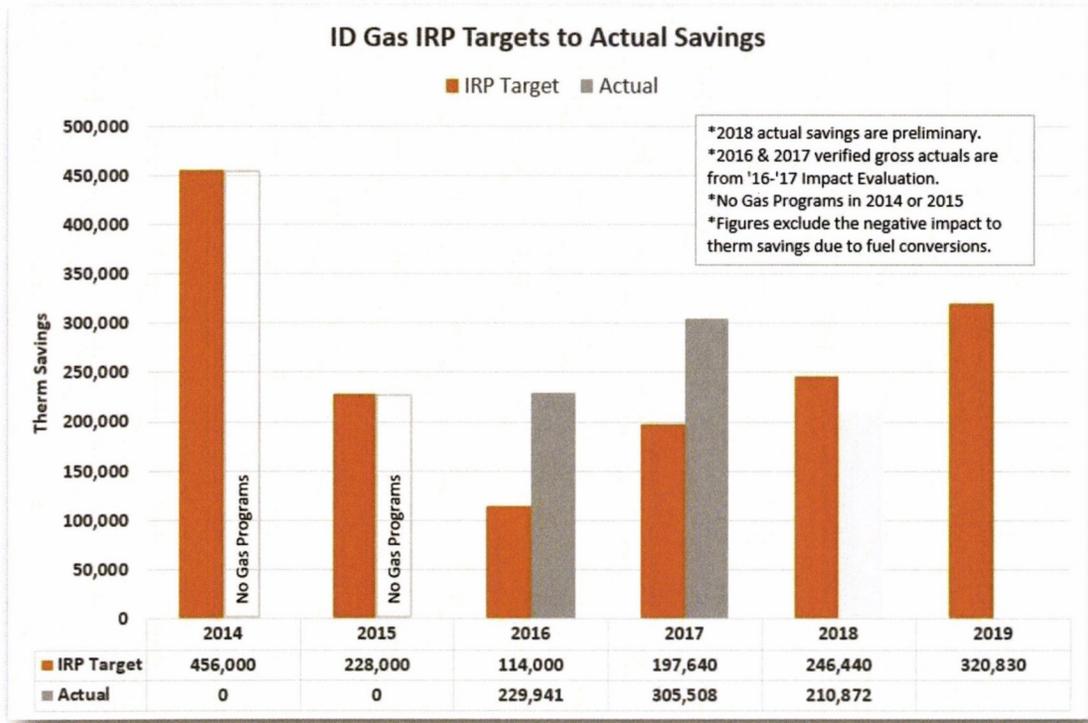
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**Q. Please explain further how the FCA Mechanisms have provided benefits to Avista and customers.**

A. The FCA Mechanisms have been an essential means for providing the Company revenue stability each year, without impacting utility operations.<sup>6</sup> They have also been vital in ensuring the Company is able to recover the fixed costs of providing service to customers, therefore making the Company agnostic to the impacts of customers pursuing distributed generation (net metering) resources and conservation. Having an electric FCA positively affects how Avista views the proliferation of distributed generation on our system. While Idaho customers have been slower to adopt distributed generation as compared to our Washington customers, with the FCA there is no reason to discourage the

<sup>6</sup> *Id.* p. 10-1

1 amount of net metering on our system, given the limited impact on cost recovery in between  
2 general rate cases. The Company has been supportive of customer choice towards  
3 distributed generation resources as an alternative generation resource that certain customers  
4 desire and that can provide benefits to Avista's system.<sup>7</sup>

5 The FCA Mechanisms also provide an important protection for customers. First, as  
6 discussed earlier, by separating sales from revenues, the disincentive to promote  
7 conservation is removed, as would any incentive for the utility to increase throughput.  
8 Customers also benefit if the overall actual sales revenue collected by the Company on a  
9 per-customer basis is greater than that approved by the Commission. For example, if a  
10 winter is colder than normal, leading to loads that are higher than normal, the Company  
11 rebates to customers all of the revenue collected above the allowed level.

12 The revenue provided to Avista through an FCA would not represent additional  
13 revenue to the Company over and above what is needed to recover its costs; it represents  
14 restoration of revenues that the Commission has already determined should be provided to  
15 the utility from the last rate case, on a per-customer basis.

16 Customers also benefit through an annual rate increase limitation. The 3 percent  
17 annual rate increase limitation ensures that the amount of an incremental rate adjustment  
18 for any of the rate groups does not exceed more than 3 percent in any given year, reducing  
19 the likelihood of rate shock.

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<sup>7</sup> In a two year period from December 31, 2016 to December 31, 2018, distributed generation resources have seen a 27% increase in nameplate capacity in Avista's Idaho service territory, going from 61 total systems, with a nameplate capacity of 505 kW's, to 79 total systems, with a nameplate capacity of 641 kW's.

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**IV. FCA MECHANISM PERFORMANCE**

**Q. How have the FCA Mechanisms performed?**

A. The FCA Mechanisms have proven to work for both the customers’ and the Company’s benefit, as intended. Table No. 1 provides the deferral balances for the Residential Customer Groups for both electric and natural gas which were in the surcharge direction for the 2016 deferral period, in the rebate direction for the 2017 deferral period, and in the surcharge direction for the 2018 deferral period.

For the electric Non-Residential Group, the deferral balance was in the surcharge direction for the 2016 through 2018 deferral periods, while for the natural gas Non-Residential Group, the deferral balance was in the surcharge direction in 2016, but in the rebate direction for 2017 and 2018. Over three years, the Mechanisms in total are working as intended, and are going both ways – both surcharges and rebates.

**Table No. 1: Summary of Deferral Balances**

Electric							
		Residential Group			Non-Residential Group		
	Notes	2016	2017	2018 C	2016	2017	2018 C
<b>Change in Average Use/Cust from Test Year</b>		(582)	348	(303)	(1,787)	(429)	(1,623)
<b>Deferred Revenue (\$)</b>		4,028,203	-2,816,256	1,753,478	2,556,424	610,929	1,421,402
Requested Recovery (\$)	A	4,104,951	-2,071,515	1,772,689	2,601,586	603,699	1,502,273
Customer Surcharge (Rebate) Revenue (\$)		3,290,149	-2,071,515	1,772,689	2,601,586	603,669	1,502,273
Carryover Deferred Revenue (\$)		814,802	0	0	0	0	0
Fixed Cost Adj Rate (Schedule 75) (\$/kWh)	B	0.00281	-0.00176	0.00150	0.00241	0.00056	0.00140
<b>Incremental Revenue (Percent)</b>		<b>3.00%</b>	<b>-4.73%</b>	<b>1.56%</b>	<b>2.70%</b>	<b>-2.03%</b>	<b>0.91%</b>
Limited by 3% Cap?		Yes	No	No	No	No	No
A: Requested recovery is equal to deferred revenue after adjusting deferral balance carryover from prior year (if any), interest, and revenue related expenses.							
B: Fixed Cost Adj rates Schedule 75 (electric) take effect on October 1st of the following year. For example, rates shown in the 2016 column have an effective date of October 1, 2017 (electric).							
C: For 2018 Deferred Revenues are Actual Values, however Requested Recovery, Schedule 75 Rates, and Incremental Revenue (Percent) are estimated values that will be finalized in the July FCA surcharge/rebate filing.							

Natural Gas							
		Residential Group			Non-Residential Group		
	Notes	2016	2017	2018 C	2016	2017	2018 C
<b>Change in Average Use/Cust from Test Year</b>		(71)	42	(26)	(1,451)	1,129	4
<b>Deferred Revenue (\$)</b>		2,626,654	-1,636,265	557,929	500,253	-377,623	-137,897
Requested Recovery (\$)	A	2,673,762	-465,043	564,037	509,321	-274,617	-139,390
Customer Surcharge (Rebate) Revenue (\$)		1,440,064	-465,043	564,037	383,369	-274,617	-139,390
Carryover Deferred Revenue (\$)		1,233,698	0	0	125,952	0	0
Fixed Cost Adj Rate (Schedule 175) (\$/therm)	B	0.02466	-0.00766	0.00927	0.01615	-0.01067	-0.00540
<b>Incremental Revenue (Percent)</b>		<b>3.00%</b>	<b>-4.23%</b>	<b>2.22%</b>	<b>3.00%</b>	<b>-5.55%</b>	<b>1.09%</b>
Limited by 3% Cap?		Yes	No	No	Yes	No	No
A: Requested recovery is equal to deferred revenue after adjusting deferral balance carryover from prior year (if any), interest, and revenue related expenses.							
B: Fixed Cost Adj rates Schedule 175 (natural gas) take effect on November 1st of the following year. For example, rates shown in the 2016 column have an effective date of November 1, 2017 (natural gas).							
C: For 2018 Deferred Revenues are Actual Values, however Requested Recovery, Schedule 175 Rates, and Incremental Revenue (Percent) are estimated values that will be finalized in the July FCA surcharge/rebate filing.							

The primary drivers of the changes in the deferral balances were deviations in use-per-customer primarily driven by actual weather being different from normal weather in any given year, and continued energy efficiency savings that were acquired beyond what was built into the Company's test year. Table Nos. 2 and 3 below provide the estimated difference in use-per-customer comparing the deferral year to the test year, with an estimation of the amounts attributable to weather and energy efficiency (note that the "Test

1 Year” values are different each year due to general rate cases, which of course then affects  
 2 the cumulative energy efficiency savings due to a reset baseline).

3 **Table No. 2: Electric Use-Per-Customer**

Electric	2016			2017			2018		
	Usage (MWh)	Customers	Use per Customer (kWh)	Usage (MWh)	Customers	Use per Customer (kWh)	Usage (MWh)	Customers	Use per Customer (kWh)
	----- Residential -----								
Test Year	1,147,395	102,923	11,148	1,143,267	103,838	11,010	1,145,126	104,855	10,921
Actual	1,107,767	104,843	10,566	1,205,119	106,104	11,358	1,145,982	107,930	10,618
Change from Test Year	-39,628	1,920	-582	61,852	2,267	348	856	3,076	-303
Percent Change	-3.45%	1.87%	-5.22%	5.41%	2.18%	3.16%	0.07%	2.93%	-2.78%
Change from Test Year Due to:									
<b>Weather</b>	-37,132		<b>-354</b>	48,718		<b>459</b>	-16,755		<b>-155</b>
<b>Cumulative Energy Efficiency</b>	-24,342		<b>-232</b>	-28,058		<b>-264</b>	-6,194		<b>-57</b>
	----- Non-Residential -----								
Test Year	1,120,783	23,074	48,573	1,080,503	23,311	46,352	1,074,699	23,575	45,586
Actual	1,102,117	23,557	46,786	1,093,055	23,802	45,924	1,061,269	24,140	43,964
Change from Test Year	-18,666	483	-1,787	12,552	491	-429	-13,430	565	-1,623
Percent Change	-1.67%	2.09%	-3.68%	1.16%	2.11%	-0.92%	-1.25%	2.39%	-3.56%
Change from Test Year Due to:									
<b>Weather</b>	-5,497		<b>-233</b>	19,041		<b>800</b>	-631		<b>-26</b>
<b>Cumulative Energy Efficiency</b>	-20,639		<b>-876</b>	-45,109		<b>-1,895</b>	-24,396		<b>-1,011</b>

16 For electric use-per-customer, the primary driver of any reductions is due to the cumulative  
 17 effects of energy efficiency, especially for the less-weather sensitive Non-Residential  
 18 Group. For natural gas as shown on Table No. 3, however, as one might suspect the largest  
 19 driver for any change in use per customer for a FCA Mechanism based on non-weather  
 20 normalized results would be the effects of weather, given natural gas’ primary use as a  
 21 heating fuel.

1 **Table No. 3: Natural Gas Use-Per-Customer**

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Natural Gas	2016			2017			2018		
	Usage (Therms)	Customers	Use per Customer (Therms)	Usage (Therms)	Customers	Use per Customer (Therms)	Usage (Therms)	Customers	Use per Customer (Therms)
	----- Residential -----								
Test Year	55,714,011	75,707	736	55,714,011	75,707	736	59,156,634	78,604	753
Actual	52,276,419	78,604	665	62,549,247	80,356	778	59,788,035	82,301	726
Change from Test Year	-3,437,592	2,897	-71	6,835,236	4,649	42	631,401	3,697	-26
Percent Change	-6.17%	3.83%	-9.63%	12.27%	6.14%	5.77%	1.07%	4.70%	-3.47%
Change from Test Year Due to:									
<b>Weather</b>	-4,983,458		<b>-63</b>	2,020,925		<b>25</b>	-3,169,293		<b>-39</b>
<b>Cumulative Energy Efficiency</b>	-154,713		<b>-2</b>	-271,876		<b>-3</b>	-173,276		<b>-2</b>
	----- Non-Residential -----								
Test Year	22,947,786	1,387	16,542	22,947,786	1,387	16,542	23,271,119	1,421	16,372
Actual	21,450,773	1,421	15,091	25,594,211	1,448	17,670	24,437,649	1,492	16,375
Change from Test Year	-1,497,013	34	-1,451	2,646,425	61	1,129	1,166,530	71	4
Percent Change	-6.52%	2.46%	-8.77%	11.53%	4.41%	6.82%	5.01%	4.99%	0.02%
Change from Test Year Due to:									
<b>Weather</b>	-994,853		<b>-700</b>	469,940		<b>324</b>	-646,304		<b>-433</b>
<b>Cumulative Energy Efficiency</b>	-34,582		<b>-24</b>	-70,173		<b>-48</b>	-37,596		<b>-25</b>

14 The impacts of the FCA Mechanisms on customer bills have been small over the

15 first three calendar years of operation. Table No. 4 below provides a summary of the billing

16 rate effects from each of the Company's first two FCA Mechanism Rate Adjustments, as

17 well as the projected rate adjustments that will be filed later this summer related to the 2018

18 deferral period:

1 **Table No. 4: Rate Changes (Percentage)**

	<b>Electric</b>	
	<b><u>Residential</u></b>	<b><u>Non-Residential</u></b>
2016 Deferral Year	3.0%	2.7%
2017 Deferral Year	-4.7%	-2.0%
2018 Deferral Year	1.6%	0.9%
	<b>Natural Gas</b>	
	<b><u>Residential</u></b>	<b><u>Non-Residential</u></b>
2016 Deferral Year	3.0%	3.0%
2017 Deferral Year	-4.2%	-5.6%
2018 Deferral Year	2.2%	1.1%

9 **Q. Would you please provide a summary of the Commission’s approvals**  
 10 **of FCA Mechanism rate adjustments?**

11 A. Yes. The Company has made Commission filings related to its FCA  
 12 Mechanisms for the 2016 and 2017 deferral years, and has made its 2018 filings coincident  
 13 with the filing of this Case. The deferral period year and the corresponding Docket numbers  
 14 for both electric and natural gas are detailed below in Table No. 5:

15 **Table No. 5: Rate Change Case Numbers**

	<b><u>FCA</u></b>	<b><u>Electric</u></b>	<b><u>Natural Gas</u></b>
	<b><u>Deferral Year</u></b>	<b><u>Case Number</u></b>	<b><u>Case Number</u></b>
	2018	TBD	TBD
	2017	AVU-E-18-06	AVU-G-18-03
	2016	AVU-E-17-04	AVU-G-17-03

20 For each of the 2016 and 2017 cases, Commission Staff reviewed the FCA deferrals  
 21 and recommended the Commission approve the Company’s deferral balances and rate  
 22 recovery.

23 **Q. What is the history of customer comments in the FCA deferral rate**  
 24 **adjustment cases?**

1           A.     For the 2017 and 2018 FCA Mechanism electric and natural gas rate  
2 adjustment filings, the Commission has received only 36 comments. In fact, all of the  
3 comments occurred in the 2017 rate adjustment review, and the Commission noted that  
4 “many questioned the pending merger with HydroOne and its connection to Avista’s  
5 requested rate increase”.<sup>8</sup>

6  
7                   **V. RISK MITIGATION ASSOCIATED WITH FCA MECHANISMS**

8           **Q.     The Commission in the Company’s 2018 electric and natural gas FCA**  
9 **deferral filings stated that “we encourage interested persons and parties to examine**  
10 **issues related to...the effect of the FCA on customer and Company risk and the**  
11 **benefits accruing therefrom.”<sup>9</sup> What is the Company’s position on this matter?**

12           A.     The Company’s position is no different today than when the mechanisms  
13 were implemented. In fact, Company witness Mr. McKenzie in the Company’s current  
14 Idaho General Rate case addressed this very issue.<sup>10</sup> When addressing whether the  
15 regulatory mechanisms approved for Avista in Idaho set the Company apart from other  
16 firms that operate in the utility industry, he found that Avista was not set apart. He found  
17 that:

18                   [C]ompanies in the electric and gas utility industries operate under a wide  
19 variety of cost adjustment mechanisms, which range from revenue  
20 decoupling and adjustment clauses designed to address rising capital  
21 investment outside of a traditional rate case and increasing costs of

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<sup>8</sup> Order 33899, p. 3.

<sup>9</sup> See Electric FCA Order 34158, p. 3 and Natural Gas FCA Order 34170, p. 3

<sup>10</sup> Case No. AVU-E-19-04.

1 environmental compliance measures to riders to recover bad debt expense  
2 and post-retirement employee benefit costs.<sup>11</sup>  
3

4 **Q. Did Mr. McKenzie find that the benefits associated with various**  
5 **mechanisms, like the FCA, are already accounted for in the Company's return on**  
6 **equity recommendations?**

7 A. Yes. Mr. McKenzie found that:<sup>12</sup>

8 Consistent with this view, the mitigation in risks associated with Avista's  
9 ability to recover its costs in a more timely manner through various  
10 adjustment mechanisms is already reflected in the results of the quantitative  
11 methods presented in my testimony. (emphasis added)  
12

13 When discussing his analysis of his ROE peer group analysis (the "Utility Group"), Mr.

14 McKenzie stated:<sup>13</sup>

15 [T]he companies in the Utility Group operate under a variety of regulatory  
16 adjustment mechanisms.<sup>14</sup> For example, twelve of the firms benefit from  
17 some form of revenue decoupling and seventeen operate in jurisdictions that  
18 allow the use of future test years. In contrast to Avista, fourteen of the firms  
19 in the proxy group have operating utilities that benefit from mechanisms  
20 that allow for cost recovery of infrastructure investment outside a formal  
21 rate proceeding. Many of these utilities also have the ability to implement  
22 periodic rate adjustments to reflect changes in a diverse range of operating  
23 and capital costs, including expenditures related to environmental  
24 mandates, conservation programs, transmission costs, and storm recovery  
25 efforts.  
26

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<sup>11</sup> Id. p. 46, ln. 11 – 15.

<sup>12</sup> Id. p. 49, ln. 16-18.

<sup>13</sup> Id. p. 48, ln. 4-12.

<sup>14</sup> Because this information is widely referenced by the investment community, it is also directly relevant to an evaluation of the risks and prospects that determine the cost of equity.

1           **Q.    Have other regulators recognized that approval of adjustment**  
2 **mechanisms do not warrant an adjustment to the ROE?**

3           A.    Yes. As Mr. McKenzie discusses in his direct testimony in the current Idaho  
4 electric general rate case:<sup>15</sup>

5                     For example, the WUTC recognized in a 2015 order that the impact of adjustment  
6 mechanisms is already reflected in cost of equity estimates for the proxy group:

7  
8                             We believe it is correct that cost of capital analysis cannot be  
9 expected to produce results that support measurement of decrements  
10 to ROE ostensibly due to approval of one risk mitigation mechanism  
11 or another. Nor would cost of capital analysis be adequate to the task  
12 of identifying increments to ROE that might be considered due to  
13 some measure of additional risk a company takes on at some point  
14 in time. The Commission has never tried to account separately in its  
15 ROE determinations for specific risks or risk mitigating factors, nor  
16 should it. Circumstances in the industry today and modern  
17 regulatory practice that have led to a proliferation of risk reducing  
18 mechanisms being in place for utilities throughout the United States  
19 make it particularly inappropriate and unnecessary to consider such  
20 an undertaking. **The effects of these risk mitigating factors was**  
21 **by 2013, and is today, built into the data experts draw from the**  
22 **samples of companies they select as proxies.**<sup>16</sup>

23                     Similarly, the Staff of the Kansas State Corporation Commission concluded that no  
24 ROE adjustment was justified in the case of certain tariff riders because the impact  
25 of similar mechanisms is already accounted for:

26                             Those mechanisms differ from company to company and jurisdiction to  
27 jurisdiction. Regardless of their nuances, the intent is the same; reduce cash-  
28 flow volatility year to year and place recent capital expenditures in rates as  
29 quickly as possible. Investors are aware of these mechanisms and their  
30 benefits are a factor when investors value those stocks. Thus, any risk

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<sup>15</sup> Id. p. 48, ln. 13 – p. 49, ln. 15.

<sup>16</sup> *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Dockets UE-130130 and UG-130138 (consolidated) et al., Order 15.14 at 69, ¶ 155 (June 29, 2015) (internal citations omitted, emphasis added).

1 reduction associated with these mechanisms is captured in the market data  
2 (stock prices) used in Staff's analysis.<sup>17</sup>

3 **Q. Does Mr. McKenzie believe any adjustment to the ROE is warranted**  
4 **due to Avista's FCA Mechanisms?**

5 A. No he does not. He states:<sup>18</sup>

6 The FCA is supportive of Avista's financial integrity, but there is no evidence to  
7 suggest that implementation of this mechanism has altered the relative risk of Avista  
8 enough to warrant any adjustment to its ROE. As noted earlier, the investment  
9 community and the major credit rating agencies in particular, pay close attention to  
10 the regulatory framework, including various adjustment mechanisms. Based  
11 largely on the expanded use of ratemaking mechanisms such as revenue decoupling  
12 and cost-recovery riders, Moody's upgraded most regulated utilities in January  
13 2014.<sup>19</sup> Similarly, Moody's and S&P have noted Avista's ability to benefit from  
14 these regulatory mechanisms in their assessment of the Company's risk profile.<sup>20</sup>  
15 In other words, the implications of revenue decoupling and other regulatory  
16 mechanisms are already fully reflected in Avista's credit ratings, which are  
17 comparable to those of the proxy group used to estimate the cost of equity.  
18

19 Moreover approval of the FCA does not remove overhanging regulatory risks.  
20 Avista remains exposed to future determinations as to the prudence of its  
21 expenditures and investments, and investors continue to evaluate expectations for  
22 balance in the regulatory framework and in establishing allowed ROEs.  
23

24 **Q. Does Avista believe that this issue needs to be resolved in connection**  
25 **with this filing?**

26 A. No, it should be addressed in connection with the establishment of the  
27 authorized ROE in the Company's pending general rate case.

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<sup>17</sup> *Direct Testimony Prepared by Adam H. Gatewood*, State Corporation Commission of the State of Kansas, Docket No. 12-ATMG-564-RTS, pp. 8-9 (June 8, 2012). This proceeding was ultimately resolved through a stipulated settlement.

<sup>18</sup> Case No. AVU-E-19-04, p. 45, ln. 5 – p. 46, ln. 2.

<sup>19</sup> Moody's Investors Service, *US utility sector upgrades driven by stable and transparent regulatory frameworks*, Sector Comment (Feb. 3, 2014).

<sup>20</sup> Moody's Investors Service, *Moody's downgrades Avista Corp. to Baa2, outlook stable*, Rating Action (Dec. 20, 2018). See also, S&P Global Ratings, *Avista Corp. Ratings Affirmed; Off Watch Positive; Outlook Stable*, RatingsDirect (Dec. 10, 2018).

1                   **VI. INDEPENDENT REPORT FINDINGS AND RECOMMENDATIONS**

2                   **Q. Before discussing the findings and recommendations of the**  
3 **Independent Final Report, do you believe the findings for the Company’s Decoupling**  
4 **Mechanisms in Washington are applicable to the Company’s FCA Mechanisms in**  
5 **Idaho?**

6                   A. Yes, I do believe the findings in the Washington Independent Final Report  
7 have merit when evaluating the Idaho FCA Mechanisms. As the Commission is well aware,  
8 Avista operates its electric and natural gas operations in Washington and Idaho generally  
9 as a system given the interconnected operations with only a state border segmenting one  
10 portion of the system from the other. As such, as I discuss the findings from the  
11 Independent Final Report prepared for Washington purposes, I believe the findings are also  
12 applicable to the Idaho FCA Mechanisms (also considering that Idaho parties participated  
13 in the development of the RFP scoping materials that ultimately led to the hiring of H. Gil  
14 Peach and Associates).

15                   **Q. What were the findings and recommendations from H. Gil Peach’s**  
16 **Independent Report, included at Exhibit No. 1?**

17                   A. The Independent Final Report issued by H. Gil Peach and Associates is  
18 segmented into sections which were designed to address the requirements as fully described  
19 in the Company’s RFP. As described in the introduction of the Independent Final Report,  
20 the evaluation was partly a compliance evaluation and partly a policy evaluation of Avista’s  
21 Decoupling (FCA) Mechanisms. The summary conclusion as stated on Page 1 of the  
22 Independent Final Report states that “(w)e find that Avista’s decoupling is working well  
23 within the specific window of time examined.” Sections 1 through 7 correspond to a  
24 specific task and sections 8 through 10 correspond to specific topics and recommendations.

1 Excerpts of the summary of sections 1 through 9 and the report recommendations in Section  
2 10 are detailed below:

3 Section 1 – Did Avista comply with the specifics of the decoupling order?  
4

5 **Findings** – The overall result in this section of the analysis is that we find the  
6 deferrals and rates to have been calculated by the Company in accordance with the  
7 Commission order and the Amended Petition, as determined by methodological  
8 specifications in Schedule 75 and Schedule 175.<sup>21</sup>  
9

10 **Avista’s View on Implications for Idaho** – We believe that the consultant would  
11 have come to a similar conclusion in Idaho, not to mention Commission Staff has  
12 audited our 2016 and 2017 deferral periods and recommended Commission  
13 approval of our rate filings in those cases.  
14

15 Section 2 – Analyzes the billing impacts and recovery of cost of service related to  
16 decoupling.  
17

18 **Findings** – Impacts of decoupling on customer bills have been small over the first  
19 three calendar years of operation, partly due to the timing of billing impacts.  
20

21 An important characteristic of the Avista decoupling mechanism is that the  
22 possibility of ever-increasing levels of carryover deferrals (snow-balling deferral  
23 balances) is greatly reduced by allowing the decoupling rate to adjust incrementally  
24 higher each rate year, subject to the annual 3% cap. This feature limits rate shock  
25 while also allowing the decoupling rate to amortize higher levels of requested  
26 recovery.  
27

28 An assessment to determine if allowed revenues from the residential, non-  
29 residential, and customers not subject to decoupling rate classes are recovering their  
30 respective costs of service shows significantly different results for electric and  
31 natural gas. Avista’s Washington electric system revenue exceeded total costs in  
32 all three years. Overall the non-residential rate group subsidizes the residential rate  
33 group and, to a much lesser extent, the non-decoupled rate group. These cross-  
34 subsidization results are consistent with GRC expectations. Avista’s Washington  
35 natural gas system had a revenue shortfall in 2015 and a surplus in 2016 and 2017.  
36 Unlike the electric system, revenue surpluses and shortfalls have not been consistent  
37 across the three years or within rate groups. The change in natural gas GRC  
38 assumptions between 2015 and 2016/2017 appears to have materially shifted actual  
39 and planned earnings results for all rate groups.<sup>22</sup>  
40

41 **Avista’s View on Implications for Idaho** – As discussed earlier, the FCA  
42 mechanisms are functioning as intended, with some years showing surcharges, and  
43 other years showing rebates. Overall, the rate changes in our view are relatively

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<sup>21</sup> *Ibid.*

<sup>22</sup> *Id.* p. 2-28.

1 modest, with the 3% rate cap helping to eliminate the potential for rate shock should  
2 a large surcharge balance form. Further, we believe that excluding larger electric  
3 and natural gas customers is appropriate given that their usage tends to be less  
4 volatile (higher load factor). The Company continues to believe that the fixed costs  
5 recovered from Schedule 25, 25P and 146 are more stable, and therefore do not need  
6 to be included in the mechanisms going forward.

7  
8  
9 Section 3 – *This section provides an evaluation of trends in Low-Income Bill*  
10 *Assistance and the Low-Income Weatherization services during the study period*  
11 *(2012-2014 and 2015-2017).*

12  
13 **Findings** – The decoupling deferral tracker adjustment, Schedule 75 for electric and  
14 Schedule 175 for natural gas, has had a relatively small impact on low-income  
15 customer bills. On a percentage of bill basis there is no meaningful difference in  
16 decoupling charges between low-income and all residential customers.

17  
18 The average low-income customers used six percent (6%) more electricity per  
19 premise in 2017 than other residential customers. Low-income homes were also  
20 substantially smaller. With higher use in smaller homes, electric use per square foot  
21 in low-income homes was about forty percent (40%) higher than for other  
22 residential customers. Analysis to determine why this is the case is beyond the  
23 scope of this evaluation but older less efficient homes and greater reliance on  
24 electric space heating in low-income homes are at least part of the explanation.

25  
26 The average low-income customer used 16% less natural gas per premise than other  
27 residential customers. On a per square foot basis, natural gas use was sixteen  
28 percent (16%) higher in low-income homes than other residential. Much of this  
29 difference is likely due to older less efficient building shells in low-income housing  
30 units.<sup>23</sup>

31  
32 **Avista’s View on Implications for Idaho** – Avista believes that the analysis for  
33 low-income effects in Washington is similar had such analysis been completed for  
34 Idaho. As mentioned earlier, our electric and natural gas operations are tied together  
35 essentially as one integrated system. The populations in North Idaho and Eastern  
36 Washington, in our view, are very similar. As such, we believe that the findings in  
37 the Independent Final Report that rate adjustments had a relatively small impact on  
38 low-income customers is the same in Idaho as it was in Washington.

39  
40 Section 4 – *Analyzes the effects of the Decoupling Mechanisms on Avista’s revenue.*

41  
42 **Findings** – On the electric side, the 3% cap on annual rate increases from the  
43 decoupling rate was only reached one out of six possible times when it came into  
44 effect for electric residential in 2015. For natural gas, the rate cap was reached 3 of  
45 6 times, twice for residential customers and once for non-residential. Electric non-

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<sup>23</sup> *Id.* p. 3-36

1 residential is the only rate group that has not reached the rate cap. None of the four  
2 rate groups were subject to the decoupling rate cap in 2017.<sup>24</sup>  
3

4 **Avista’s View on Implications for Idaho** – As discussed earlier, Avista reached  
5 the 3% cap on annual increases once on the electric side for the Residential Group  
6 (2016 Deferral Year). For natural gas, in the 2016 deferral year the 3% cap was hit  
7 for both Residential and Non-Residential Groups, but has not since that time. In the  
8 end, the presence of the FCA Mechanisms has served to stabilize revenues for the  
9 Company.

10  
11  
12 *Section 5 – This section examined the extent to which fixed costs are recovered in*  
13 *fixed charges for electric and natural gas customer classes both in the Decoupling*  
14 *Mechanisms and customer classes excluded from the mechanisms.*

15  
16 **Findings** – Avista recovers about 13 percent of total electric fixed cost through  
17 fixed customer charges, trending only slightly lower over the 2015-2017 period. On  
18 the natural gas side, fixed charges have averaged nearly 24 percent of fixed costs  
19 between 2015 and 2017. The percentage has moved higher for decoupled natural  
20 gas non-residential customer classes and lower for residential.<sup>25</sup>  
21

22 **Avista’s View on Implications for Idaho** – In Idaho, the Company’s fixed costs  
23 recovered through fixed customer charges is approximately 13 percent for electric  
24 operations. For natural gas, only 23% of fixed costs are recovered in fixed charges.  
25 In the end, approximately 87 percent of electric fixed costs and 77 percent of natural  
26 gas fixed costs are recovered in volumetric rates.  
27

28 *Section 6 – This section analyzes the impact from decoupling related to electric to*  
29 *natural gas conversions and electric and natural gas conservation savings.*

30  
31 **Findings** – Decoupling was an important factor facilitating Conservation  
32 Achievement, but was not a driver of Conservation Achievement. On the electric  
33 side the I-937 ten-year plan was the primary driver. On the natural gas side,  
34 Commission direction towards the use of the gross UCT test was a primary driver.  
35 Based on this analysis, we conclude that there is no evidence that decoupling has  
36 any meaningful impact as a driver for energy Conservation Achievement.  
37 However, in the presence of a strong driver like I-937 or a strong driver like  
38 Commission direction to use the gross UCT test, it provides revenue stability and  
39 more timely revenue recovery and so is a part of a “package” in that it eliminates  
40 the “throughput” incentive. Where a non-decoupled utility will turn away energy  
41 conservation customers, having reached its budget cap, Avista has demonstrated  
42 that a decoupled utility can keep on servicing to acquire all cost-effective energy  
43 conservation.<sup>26</sup>  
44

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<sup>24</sup> *Id.* p. 4-12

<sup>25</sup> *Id.* p. 5-3

<sup>26</sup> *Id.* p. 6-17.

1 **Avista's View on Implications for Idaho** – In Idaho, I believe the findings to be  
2 the same. Earlier I discussed how Avista essentially operates as an integrated  
3 system, with a border being the only separation between our service territories. As  
4 such we have offered, where possible, the same energy efficiency programs in Idaho  
5 as we do in Washington, so as to minimize customer confusion given our adjoined  
6 service territories. While I-937 in Washington is a driver of our electric efficiency  
7 programs, we work with our Idaho customers just as diligently to drive efficiency.  
8

9 As I mentioned earlier in this testimony, the Company has demonstrated, in a  
10 number of filings before this Commission, that it has been aggressively pursuing all  
11 cost-effective conservation for a number of years. The Company actively promotes  
12 technologies that are cost-effective, reliable, and feasible, with the goal of meeting  
13 and exceeding its required targets. The presence of the FCA Mechanisms helps us  
14 do just that.  
15

16 Section 7 – *This section provides an analysis of possible adverse impacts from the*  
17 *Decoupling Mechanisms.*  
18

19 **Findings** – We find no conclusive evidence of current adverse impact of decoupling  
20 on cost control, operational efficiency, price signals or service quality. We have  
21 expressed two concerns for the intermediate to long-term for two cost-control  
22 approaches: making hiring reviews more extensive and so possibly creating some  
23 short-staffing problems over time; and moving away from defined benefit  
24 pensions.<sup>27</sup>  
25

26 **Avista's View on Implications for Idaho** – We do not believe that the independent  
27 review would have different findings in Idaho as compared to Washington.  
28

29 Section 8 – *Low-Income Appendix.*  
30

31 **Findings** – The Avista Decoupling Evaluation RFP No. R-41321 provided two  
32 related Attachments to the Scope of Work: Attachment G - An Estimate of the  
33 Number of Households in Poverty Served by Avista Utilities in Washington State<sup>28</sup>  
34 and Attachment H - The Self-Sufficiency Standard for Washington State 2014.<sup>29</sup>  
35 Attachment G provides an estimate of how many Avista customers are below the  
36 Federal Poverty Level in counties served by Avista. Attachment H estimates the  
37 level of income required by households to achieve self-sufficiency without public  
38 assistance. The Independent Final Report reviewed these two documents and  
39 correlated findings with the low-income energy assistance information that was  
40 reviewed for Task 3.<sup>30</sup>  
41

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<sup>27</sup> *Id.* p. 7-17.

<sup>28</sup> *An Estimate of the Number of Households in Poverty Served by Avista Utilities in Washington State*, Brian Kennedy, MS and D. Patrick Jones, Ph.D., Institute for Public Policy and Economic Analysis, May 2015.

<sup>29</sup> *The Self-Sufficiency Standard for Washington State 2014*, Diana M. Pearce, PhD, Center for Women's Welfare and the School of Social Work at the University of Washington, Revised August 2015.

<sup>30</sup> Avista Decoupling Evaluation – Final Report, H. Gil Peach & Associates LLC. p. 8-1.

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**Avista’s View on Implications for Idaho** – Nothing further to add.

**Section 9** – Weather Appendix.

**Findings** – This section provides further discussion and analysis related to observations in recent weather trends.<sup>31</sup>

**Avista’s View on Implications for Idaho** – Nothing further to add.

**Section 10** – *This section provides a summary of the Independent Final Report recommendations.* [Avista has inserted its’ response below each recommendation]

**Report Recommendation 1** – The decoupling mechanisms have worked as expected to stabilize revenue without impacting utility operations and energy efficiency programs. We also found no evidence of adverse impacts to any customer groups. We recommend the electric and natural gas mechanisms be continued and certain modifications be considered.

**Avista Response** – This Petition addresses the continuation of the FCA Mechanisms, with certain modifications.

**Report Recommendation 2** – If practical for Avista, move the decoupling tariff effective date up from November 1st to July 1st to substantially increase the likelihood that reported revenue will be collected within two years, as required by the Securities and Exchange Commission.

**Avista Response** – Later in my testimony I will discuss our proposal to move to a different “deferral year”.

**Report Recommendation 3** – Avista might consider adjusting the low-income “carve out” each year for inflation to keep its value more stable between rate cases.

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<sup>31</sup> *Id.* 9-1.

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**Avista Response** – The issue of increasing low-income conservation funding to at least match inflation will be taken up by Avista’s energy efficiency group and Advisory Group, before further changes are made.

**Report Recommendation 4** – We have a sense that staffing is a bit thin compared with other utility clients with whom we recently have been engaged for projects. What works as a short-run cost savings may not work as well long-term. We recommend consideration of some additional hiring of some additional staff in Rates and in DSM (not short-term supplementary or temporary arrangements).

**Avista Response** – Proper staffing levels are a critical management issue that is carefully considered on a periodic basis by Avista’s leadership, with a focus on balance between service and customer cost.

**Report Recommendation 5** – We notice that as a cost savings measure, Avista has moved from a defined benefit pension system to a system that puts employees at individual risk in developing funding for retirement. We agree this will represent cost-savings in the short term. Although such change is currently viewed as normal in the industry, reflecting the market in this case may not be useful long-term. Thinking of the five most recent “crashes” including the recent “Great Recession”, Avista might want to consider a plan that would enable some form of pension that places institutional strength between employees as individual “nano-investors” and market forces.

**Avista Response** – Similar to staffing levels, benefits provided to our employees are carefully considered by Avista’s leadership, with a focus on balance between customer service, employee retention and customer cost. This balance is periodically reviewed by management.

**Report Recommendation 6** – Continue to work towards a possible low-income rate. Households in need of income to meet the expectations of American households prior to the income allocation reversal that began in the early 1970s, are

1 likely about one-half of residential households (or at least 37.5%, as shown in the  
2 low-income appendix). A low-income rate would provide an additional tool to  
3 maintain service for all customers.

4  
5 **Avista Response** – Avista is cognizant of the laws in Idaho related to  
6 offering low-income assistance, and will monitor this recommendation  
7 should legislation allow for low-income bill assistance, including a low-  
8 income rate.

9  
10 **Report Recommendation 7** – In the low-income area, consider either moving to a  
11 higher level of rigor in evaluation and program administration by using the Self-  
12 Sufficiency standard; or use the 200% of the Federal Poverty Level as the program  
13 guideline for need for program payment assistance and weatherization services.

14  
15 **Avista Response** – Avista is cognizant of the laws in Idaho related to  
16 offering low-income assistance, and will monitor this recommendation  
17 should legislation allow for low-income bill assistance.

18  
19 **Report Recommendation 8** – Consider a redefinition of normal weather that  
20 moves away from the 30-year moving average to a 20-year moving average, and  
21 also maintain a moving average indicator for 15 years and 10 years to see how that  
22 behaves empirically, since “normal” has become a flow variable and it is rapidly  
23 getting warmer as a secular trend.

24  
25 **Avista Response** – Avista will consider this recommendation and make  
26 adjustments within the context of a general rate case filing, if deemed  
27 appropriate.

28

1                   **VII. PROPOSED MODIFICATIONS TO THE FCA MECHANISMS**

2                   **Q.     Is Avista proposing to modify its FCA Mechanisms in this case?**

3                   A.     Yes. As discussed earlier, the Company's FCA Mechanisms are working  
4 well and have performed as intended. However, in our view several modifications are  
5 needed. Below are the four proposed modifications:

- 6                   1) Extend the current FCA Mechanisms through March 31, 2025;  
7  
8                   2) Modify the upcoming deferral period to be from January 1, 2020 through June  
9                   30, 2021, so as to better align the deferral periods and the rate adjustments;  
10  
11                  3) Implement an annual true-up to the FCA Mechanisms; and  
12  
13                  4) Extend the FCA Mechanism quarterly reporting requirement from 45 to 60 days.  
14

15                  **Q.     For the first proposed modification, why should the Commission extend**  
16 **the FCA Mechanisms through March 31, 2025?**

17                  A.     Based on proven benefits to both the customer and the Company that the  
18 FCA Mechanisms have shown to date, as validated in the Independent Final Report (Exhibit  
19 No. 1), and the lack of adverse impacts associated with these mechanisms, the Company  
20 requests the Commission approve the continuation of the FCA Mechanisms. By extending  
21 the mechanisms and providing some certainty to the Company that it can recover a  
22 significant portion of its fixed costs of providing service, the Company is able to maintain  
23 its central focus of being a trusted energy advisor to its customers without adverse or  
24 uncertain financial impacts from evolving customer choice in the future. The Company  
25 believes that the FCA Mechanisms continue to be in the public interest, promote the policy  
26 goals of increased conservation, and result in fair, just, reasonable, and sufficient rates.<sup>32</sup>

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<sup>32</sup> The Company is making the same request in the State of Washington in Dockets UE-190334 and UG-190335.

1           Also important to note, is that the Company is not seeking to make the FCA  
2 Mechanisms permanent. We agree with Commission Staff who, at the FCA Workshop  
3 held in March 2019 stated that, for mechanisms like the FCA, having a more regular check-  
4 in is desirable, so that modifications, if any, can be made. That would be more difficult if  
5 the mechanisms were made permanent. As such, the Company would commit to having a  
6 similar workshop by June 30, 2024, as was held in March 2019, and would include any  
7 proposed modifications stemming from that workshop in a future FCA Mechanism  
8 extension request.

9           **Q.     Would you please explain the second proposed change to the FCA**  
10 **Mechanisms related to the timing of the first deferral period, should the Commission**  
11 **approve the Company's petition?**

12           A.     Yes. Presently the FCA allows the Company to defer the difference between  
13 actual FCA-related revenue received from customers through volumetric rates, and the  
14 FCA-related revenue-per-customer approved for recovery in the Company's last general  
15 rate case, on a calendar year basis. The Company can then file a tariff to surcharge or  
16 rebate, by rate group, the total deferred amount accumulated in the deferred revenue  
17 accounts for the prior January through December time period. The filing date for tariff  
18 adjustments currently occurs at the end of June, for rate-effective dates of October 1  
19 (electric) and November 1 (natural gas). There is quite a bit of lag between the deferral  
20 period, and the rate effective dates for any adjustment.

21           Therefore, the Company would like to shrink that rate lag by making a one-time  
22 adjustment. For the first deferral period post-approval of this Application, that period  
23 would be 18-months, or January 2020, through June 30, 2021. The Company would then  
24 file a tariff adjustment with the Commission by July 31, 2021 (and each July 31 thereafter,

1 along with the annual Power Cost Adjustment filing), and would keep the same rate-  
2 effective dates of October 1 (electric) and November 1 (natural gas). This change simply  
3 reduces the lag between the deferral period and the rate-effective period.<sup>33</sup>

4 **Q. Would you please explain the third proposed change to the FCA**  
5 **Mechanisms related to an annual true-up?**

6 A. Yes. Presently under the mechanics of the FCA Mechanisms, the annual  
7 revenue-per-customer is shaped based on the monthly kWh or therm usage from the test  
8 year. The mechanisms use the resulting monthly percentage of usage by month and  
9 multiply that amount by the annual FCA revenue-per-customer to determine the 12 monthly  
10 values. The Company is proposing to add an additional step that would, at the end of a 12-  
11 month deferral calculation, take the annual FCA revenue-per-customer (multiplied by the  
12 average annual number of actual customers), recompute the deferral, and compare that to  
13 the actual deferred revenue for the period.

14 The benefit of this calculation is that the method of monthly shaping (i.e., using test  
15 period loads to shape FCA monthly revenues) is not necessarily a perfect methodology.  
16 The proposed change in our view puts the actual results more on par with the derivation of  
17 the authorized amounts – i.e., authorized annual revenue-per-customer as compared to the  
18 sum of monthly revenue per customer.<sup>34</sup>

19 **Q. Looking back over the past three years of the mechanisms, what would**  
20 **have been the effect of such a calculation true-up?**

21 A. Such a true-up would be extremely modest. Table No. 8 below provides the

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<sup>33</sup> The Company made slightly different changes related to the timing lag between the deferral year and the rate effective date in the State of Washington in Dockets UE-190334 and UG-190335.

<sup>34</sup> The Company is making the same request in the State of Washington in Dockets UE-190334 and UG-190335.

1 effect, for all rate groups for both electric and natural gas. The values located on the  
 2 “Change” lines show the difference between the actual deferrals for 2016 through 2018,  
 3 while the “Adjusted Deferral” includes the effect of the annual true-up. As you will see,  
 4 the adjusted deferrals do not materially deviate from the actual deferral, but in our view  
 5 going forward would make the actual deferral more accurate.

6 **Table No. 6 – Backcast Results if Annual Adjustment was in Effect**

Determine Year End Average Customer Adjustment to 2016 - 2018 Deferrals				
Electric FCA	2016		2017	
	Residential	Non-Residential	Residential	Non-Residential
Adjusted Deferral	\$ 3,990,149	\$ 2,556,085	\$ (2,861,280)	\$ 606,120
Deferral As Booked	\$ 4,028,203	\$ 2,556,424	\$ (2,816,256)	\$ 610,929
<b>Change</b>	<b>\$ (38,054)</b>	<b>\$ (339)</b>	<b>\$ (45,024)</b>	<b>\$ (4,809)</b>
Natural Gas FCA	2016		2017	
	Residential	Non-Residential	Residential	Non-Residential
Adjusted Deferral	\$ 2,593,271	\$ 506,645	\$ (1,675,797)	\$ (378,973)
Deferral As Booked	\$ 2,626,654	\$ 500,253	\$ (1,636,265)	\$ (377,623)
<b>Change</b>	<b>\$ (33,383)</b>	<b>\$ 6,392</b>	<b>\$ (39,532)</b>	<b>\$ (1,350)</b>
Electric FCA	2018			
	Residential	Non-Residential		
Adjusted Deferral	\$ 1,744,658	\$ 1,431,383		
Deferral As Booked	\$ 1,753,478	\$ 1,421,402		
<b>Change</b>	<b>\$ (8,820)</b>	<b>\$ 9,981</b>		
Natural Gas FCA	2018			
	Residential	Non-Residential		
Adjusted Deferral	534,390	(125,750)		
Deferral As Booked	557,464	(137,897)		
<b>Change</b>	<b>\$ (23,074)</b>	<b>\$ 12,147</b>		



1 **an extension of its FCA Mechanisms through March 31, 2025?**

2 A. As I discussed earlier, the FCA Mechanisms have provided proven benefits  
3 to both the customer and the Company, with a lack of adverse impacts. By extending the  
4 mechanisms and providing some certainty to the Company that it can recover a significant  
5 portion of its fixed costs of providing service, the Company is able to maintain its central  
6 focus of being a trusted energy advisor to its customers without adverse or uncertain  
7 financial impacts from evolving customer choice in the future. The Company believes that  
8 the FCA Mechanisms continue to be in the public interest, promote increased conservation  
9 and customer choice as it relates to self-generation, and result in fair, just, reasonable, and  
10 sufficient rates.

11 **Q. Does this conclude your pre-filed, direct testimony?**

12 A. Yes it does.