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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	CASE NO. AVU-E-23-01
OF AVISTA CORPORATION FOR THE)	CASE NO. AVU-G-23-01
AUTHORITY TO INCREASE ITS RATES)	
AND CHARGES FOR ELECTRIC AND)	REBUTTAL TESTIMONY
NATURAL GAS SERVICE TO ELECTRIC)	OF PATRICK D. EHRBAR
AND NATURAL GAS CUSTOMERS IN THE)	IN SUPPORT OF
STATE OF IDAHO)	STIPULATION

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

1 **I. INTRODUCTION**

2 **Q. Please state your name, employer, and business address.**

3 A. My name is Patrick D. Ehrbar, and I am employed as the Director of
4 Regulatory Affairs for Avista Utilities (“Company” or “Avista”), at 1411 East
5 Mission Avenue, Spokane, Washington.

6 **Q. Have you previously filed direct testimony in this proceeding?**

7 A. Yes, I filed testimony in support of the Settlement Stipulation on July
8 12, 2023.

9 **Q. Are you sponsoring any exhibits?**

10 A. No, I am not.

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

12 A. The purpose of my testimony is to support the portion of the
13 Settlement Stipulation related to the agreed-upon basic charges, and to rebut Idaho
14 Conservation League / NW Energy Coalition (“ICL/NWEC”) witness Lauren
15 McCloy’s filed testimony urging “the Commission to reject the rate design portions
16 of the settlement.”¹

17 **Q. Would you please provide a brief summary of your rebuttal**
18 **testimony?**

19 A. Yes. As I will discuss in this testimony, (1) the proposed increases in
20 the residential Schedule 1 and 101 basic charges is not a wholesale conversion to
21 straight fixed variable rate design; at best, only a small movement in that direction
22 (still only 18% (electric)and 41% (gas) of direct customer costs recovered after

¹ McCloy, Di-2, lines 6-7.

1 increase in basic charge); (2) is not prejudicial to interests of low income customers;
2 indeed, prior analysis suggests that the opposite may in fact be true; (3) increase will
3 not detract from conservation efforts.

4 **Q. Before addressing the residential basic charges agreed to by the**
5 **Settling Parties² for Schedules 1 and 101, do you understand witness McCloy to**
6 **take issue with the rate design changes for any other rate schedules contained in**
7 **the Settlement Stipulation?**

8 A. No, witness McCloy does not appear to take issue with any other rate
9 design components, but for the basic charges for Schedules 1 and 101. Appendix F of
10 the Stipulation (Exhibit No. 19) provides a summary of the current and proposed rates
11 and charges for both electric and natural gas service.

12 **Q. Would you please provide a summary of what was agreed to for**
13 **basic charges for Schedules 1 and 101 for the two-year rate plan?**

14 A. Yes. For settlement purposes, the Settling Parties agreed that for Rate
15 Year 1, the residential basic charge would increase from \$7.00 per month to \$15.00
16 per month, and for Rate Year 2 will go from \$15.00 per month to \$20.00 per month
17 for both electric (Schedule 1) and natural gas (Schedule 101) customers. These are
18 the same increases that were originally proposed by the Company when it filed this
19 case.

20 **Q. Are the proposed increases in the basic charges arbitrary or**
21 **otherwise “not meet the basic principles of cost causation”?**³

² The parties to the Stipulation include the Staff of the Idaho Public Utilities Commission ("Staff"), Clearwater Paper Corporation ("Clearwater"), Idaho Forest Group, LLC ("Idaho Forest"), and Walmart Inc.

³ McCloy, Di-3, lines 9-10.

1 A. No, they are not arbitrary, and very much meet the basic principles of
2 cost causation. As discussed by Company witness Mr. Miller, a significant portion of
3 the Company's costs are fixed and do not vary with customer usage. These costs
4 include distribution plant and operating costs to provide reliable service to customers.
5 For electric, the total customer allocated costs, as shown in Company witness Mr.
6 Garbarino's Exhibit No. 16, Schedule 3, Page 4, line 26, those costs are \$19.24 per
7 customer per month. Factoring in distribution demand cost per customer per month
8 of \$23.84, as shown in Mr. Garbarino's Exhibit No. 16, Schedule 3, Page 4, line 29,
9 the total customer and distribution demand monthly cost is \$43.08. For natural gas,
10 the total customer allocated costs, as shown in Company witness Mr. Anderson's
11 Exhibit No. 17, Schedule 6, Page 4, line 24, those costs are \$21.96 per customer per
12 month at current rates. Factoring in distribution demand cost per customer per month
13 of \$7.56, as shown in Mr. Anderson's Exhibit No. 17, Schedule 2, Page 8, the total
14 customer and distribution demand monthly cost is \$29.51. These are essentially fixed
15 costs that are allocated based on the number of customers served.

16 The values detailed above are based on a reasoned and long-standing
17 methodology, developed through robust cost of service studies, which calculate the
18 level of costs applicable to various rate schedules (the very definition of cost
19 causation). The underlying costs are directly related to the cost of providing
20 service to customers, whether or not these customers actually even use the
21 applicable energy. Put another way, the fixed costs detailed above, which are well
22 above the levels agreed-to in the settlement, are caused by customers connected to
23 our systems. They include the costs detailed by witness McCloy, but also

1 important fixed costs including service lines, service drops, regulation,
2 transformation, and other items.

3 **Q. Is there a rule or law that you are aware of that strictly limits what**
4 **should make up a customer charge?**⁴

5 A. No I am not aware of a rule or law limiting the makeup of a
6 customer or basic charge. For this proceeding, relevant information comes from
7 the recent Commission in Order No. 35802 the Commission approved Rocky
8 Mountain Power's request to increase the Customer Service Charge from \$8.00 to
9 \$29.25 per month, over five years. In that case the Commission notes:⁵

10 The Commission is persuaded by the Company's testimony on the average
11 cost of service for a residential customer, and the Company's 2021 Cost-of-
12 Service Study. The analysis shows fixed costs represent 77 percent of the
13 average cost of service for Schedule 1 residential customers, and the current
14 \$8.00 per month Customer Service Charge recovers only nine percent of the
15 fixed costs for Schedule 1 and 36 customers.
16

17 **Q. Has the Company conducted a similar analysis showing the**
18 **percentage of a residential customers costs are fixed?**

19 A. Yes. One only needs to look at the Company's Fixed Cost
20 Adjustment (FCA) mechanisms proposed authorized baseline values included as
21 Appendix B (electric) and Appendix D (natural gas) to the Settlement Stipulation.
22 As stated in its very name, the Fixed Cost Adjustment mechanisms track the level
23 of fixed costs approved in general rate cases and compare that value on a per
24 customer basis to the revenue paid by actual customers in the rate effective period.

⁴ McCloy, Di-4, lines 1-2.

⁵ Order 35802, PAC-E-22-15, p. 10.

1 For electric operations, as shown on p. 1 of Appendix B, the total level of
2 fixed costs either tracked through the FCA, or recovered through the monthly Basic
3 Charge, is the difference between “Total Rate Revenue” (line 3) and “Variable
4 Power Supply Revenue” (line 6). That amount for Residential Schedule 1 is
5 \$117,342,364, shown on line 7. Dividing that value by the number of annual bills
6 for customers served on Schedule 1 (line 8) results in fixed costs of \$84.95 per
7 month. A \$15 per month basic charge represents only 18% of total fixed monthly
8 costs.

9 For natural gas operations, as shown in Appendix D, all of the costs
10 included in the natural gas FCA are fixed in nature, and wholesale natural gas costs
11 and interstate pipeline transportation are tracked in the Purchased Gas Cost
12 Mechanism. For General Service Schedule 101 (which is primarily made up of
13 residential customers), the total fixed costs shown on p. 1 of Appendix D (line 3) is
14 \$39,382,000. That value divided by the number of annual customer bills (line 8)
15 results in fixed costs of \$36.48 per month. A \$15 per month basic charge represents
16 only 41% of total fixed monthly costs.

17 Given the large disparity between the level of fixed costs, and the present
18 basic charge levels, we believe it is appropriate to recover more of these fixed
19 customer costs through the basic charge. And the proposed charges are not
20 “randomly selected” nor have Avista anywhere near recovering “all of Avista’s
21 fixed costs” in a basic charge.⁶

22 **Q. Will increasing the fixed charge “increase net revenue because**

⁶ McCloy, Di-4, lines 8-9.

1 **each additional customer will take on costs that are already being paid by other**
2 **customers”?**⁷

3 A. No, Avista will not recovery more “net revenue” with higher basic
4 charges, whether from existing or new customers. The FCA is actually the
5 protection against that. While all customers will pay a higher basic charge, higher
6 use customers will actually see a lower revenue increase resulting from this case,
7 while lower use customers will see a higher overall increase. This is not new to the
8 Commission, who addressed this issue in the Rocky Mountain Power case:

9 While certain customers may end up paying more per month under the
10 modified Customer Service Charge, this modification helps to ensure all
11 customers are paying a proper amount of the fixed costs required to serve
12 them. We believe there may be additional benefits for customers who will
13 likely see their summer and winter bills more levelized.⁸
14

15 Turning back to the revenue of Avista, under the design of the FCA
16 mechanisms, the FCA revenue per customer determination is made by taking total
17 rate revenue, as a schedule, and removing from that any variable power supply-
18 related costs, and the revenue from fixed monthly charges, to ultimately determine
19 the authorized, or baseline FCA Revenue. To the extent less revenue is covered by
20 the fixed monthly charge, the higher the FCA Revenue would be, and vice versa.
21 So, in aggregate, basic charges and the FCA are complementary, and not “belt and
22 suspenders.”⁹ And, with higher basic charges, there will be less volatility in any
23 FCA deferrals, resulting in smaller bill effects, as compared to the alternative.

24 **Q. Do customers actually benefit with higher basic charges, contrary**

⁷ McCloy, Di-4, lines 18-20.

⁸ Order 35802, PAC-E-22-15, p. 10.

⁹ McCloy, Di-8, line 3.

1 **to witness McCloy's assertions?**¹⁰

2 A. Absolutely. Increases in fixed monthly basic charges will benefit
3 high users of energy and will cause customers who use less energy to pay more, on
4 a monthly basis. It's as simple as this – when the fixed costs of providing service
5 are high, but those fixed costs are recovered more in a variable, usage based energy
6 rate(s), then high users will pay more fixed costs vis-a-vie low energy users. A
7 higher basic charge starts to fix that inequity.

8 **Q. Would you say that higher basic charges are more equitable for all**
9 **customers, including low-income customers?**

10 A. Yes, especially for low-income customers. In Section IV of her
11 testimony, witness McCloy states that “higher fixed charged disproportionately
12 impact low-income customers because in many jurisdictions they tend to have
13 lower than average energy use”.¹¹ One only need to look at an analysis conducted
14 in this jurisdiction to see that the opposite is true for low-income electric users.
15 Given the short turnaround time for rebuttal testimony the Company was unable to
16 run a fresh analysis of low income usage as compared to the general residential
17 customer population. But, historically speaking, the prior analysis the Company
18 conducted has shown low income customers use the same, or more energy, than the
19 general residential customer population. Most recently, in Case No. AVU-E-15-
20 05/AVU-G-15-01, I provided the following testimony:¹²

21 The Company recently conducted an analysis which shows that limited
22 income customers, on average, do use more electricity than other residential
23 customers. For the analysis, the Company looked at those limited income

¹⁰ McCloy, Di-8, lines 8-9.

¹¹ McCloy, Di-11, lines 3-4.

¹² Ehrbar, Di-53, line 9 through Di-54, line 22.

1 customers who received a LIHEAP grant during the January – December
 2 2014 time period, and compared their annual usage to the usage of all of the
 3 other residential customers.¹³ The results of the analysis are shown in the
 4 Table 13 below:

5
 6 **Table No. 13**

7
 8 **Idaho Residential Electric Usage Analysis (Billed Usage - Not Weather Corrected)**
 9 **Year: Calendar 2014**

	<u>Sample Size</u>	<u>Average Annual kWh Usage</u>	<u>Average Monthly kWh Usage</u>
10 Electric Only Customers - Limited Income (LIHEAP)	2,615	13,160	1,097
11 Electric Only Customers - All Other Residential Customers	34,641	12,800	1,067
		360	30
12 Dual Fuel Customers - Limited Income (LIHEAP)	1,727	9,828	819
13 Dual Fuel Customers - All Other Residential Customers	44,235	10,507	876
		-679	-57
14 Total Limited Income (LIHEAP)	4,342	11,835	986
15 Total All Other Residential Customers	78,876	11,514	960
16 Difference		321	27

17
 18 The analysis shows that limited income customers who only have electric
 19 service use 360 kWhs more per year than the “All Other Residential
 20 Customers” population. **For the combined limited income population,**
 21 **the analysis shows that they used 321 kWhs more in 2014 than “Total**
 22 **All Other Residential Customers” population.**

23
 24 This analysis shows that limited income customers may be harmed by
 25 having a rate design with a lower basic charge and a higher tail-block rate,
 26 as these customers are more susceptible to use in the tail-block. A higher
 27 basic charge, on the other hand, would result in lower volumetric rates (than
 28 would otherwise be the case), providing some relief to these high-use
 29 customers during the winter months. (emphasis added)
 30

31 **Q. How else is an increased basic charge more equitable for**
 32 **customers?**

33 **A. We build our distribution system to serve all customer’s peak load.**
 34 **These costs are essentially fixed, and all customers should share in those costs. The**

¹³ Customer usage extracted from the Company’s billing system were from Schedule 1 customers that had their account open during the entire test year, i.e., from January 1, 2014 through December 31, 2014. Any accounts opened for a partial year were excluded. The Company acknowledges that the limited income population used for this analysis is not comprehensive. However, because the Company does not track customer incomes, it is based on the best information available.

1 electric distribution system is available to all customers whether they use 1 or 3,000
2 kWh's per month (and likewise for natural gas customers and the gas distribution
3 system). Recovering those fixed costs based on their variable energy use is not cost
4 based and is inequitable, as it results in some customers paying less for distribution
5 services than others, even though they are using the same infrastructure. Including
6 these costs in the basic charge is an equitable approach to ensure all customers pay
7 their fair share of the costs of maintaining and upgrading the distribution system.

8 Beyond the discussion about low income customers noted earlier, one should
9 also think about the number of customers Avista serves who are seasonal in nature.
10 The Company has a number of customers who have second, or vacation homes, in our
11 service territory. For the vast majority of the year, while the Company incurs
12 approximately \$85 of monthly fixed costs to serve those customers, they only pay \$7
13 of that presently. The remaining revenue is ultimately recovered from all other
14 customers, including low income customers.

15 **Q. Do you view the increase in basic charges to cause Avista “to have**
16 **a decreased incentive to pursue conservation”?**¹⁴

17 A. No, the Company does not have a decreased incentive. One need
18 only review Appendix F to the Settlement to see that, for Residential Schedule 1 as
19 shown on pp. 2-3, the base rate decreases over the two-year time period for the
20 present level of 10.378 cents to kWh to 10.286 cents per kWh in Rate Year 2. This
21 0.092 cents per kWh is a decrease of less than 1 percent in the second block
22 variable rate. That miniscule difference will not affect utility conservation planning,

¹⁴ McCloy, Di-10, lines 3-4.

1 nor affect customer participation in energy efficiency projects, in my view.
2 Importantly, though, it does send the proper cost causation price signal to
3 customers, as noted by the Commission.¹⁵ Finally, it should be remembered that
4 electric Schedule 1 also is an inclining block rate schedule, where the higher prices
5 noted above in the second block will continue to serve as an energy efficiency price
6 signal to customers.

7 **Q. Witness McCloy provides three recommendations the Commission**
8 **require if the Settlement Stipulation is approved in whole.¹⁶ Would you please**
9 **respond to those recommendations?**

10 A. Yes. The first recommendation is related to a proposal that Avista
11 alter its cost-effectiveness calculation to account for any decrease in energy
12 efficiency (specifically for electric operations, given the reference to the Northwest
13 Power Act). As I discussed earlier in this testimony, there is almost no impact to
14 customer's electric volumetric rates as a result of the combination of the rate
15 increase and basic charge modernization. As such, we do not believe there will be
16 any impact to electric DSM program participation, and importantly nor was there
17 any evidence provided by NWECC/ICL to support such an assertion (for electric or
18 natural gas).

19 Second, witness McCloy asks for an increase in low-income weatherization
20 funding, coupled with a bill discount for low-income customers. For low-income
21 weatherization, the Company through its energy efficiency offerings has a budget
22 of \$875 thousand for weatherization (electric and natural gas). In 2022, only \$467

¹⁵ Order 35802, PAC-E-22-15, p. 10.

¹⁶ McCloy, Di-12, lines 6-19.

1 thousand was utilized by our CAP agency partners who deliver those programs. In
2 any event, the proper venue for determining a proper level of weatherization
3 funding is through the long-standing Energy Efficiency Advisory Group, of which
4 ICL, NWEAC, and Commission Staff are all members.

5 Also included in NWEAC/ICL's second recommendation is a
6 recommendation for low-income bill discounts. As the Commission is aware,
7 Idaho Code 61-315 strictly prohibits rate discrimination. That law has been the
8 primary impediment for Avista and other regulated utilities from offering low-
9 income rate assistance of any kind in the State of Idaho.

10 Finally, witness McCloy proposed the Commission open a docket relating
11 to "the interplay between high fixed charges and revenue decoupling".¹⁷ Avista
12 views this to be unnecessary, given the testimony provided above that clearly
13 describes the interplay between fixed charges and the FCA. Put succinctly, if all
14 fixed costs were included in a fixed monthly charge (so called straight-fixed
15 variable rates), the FCA/decoupling no longer be necessary. To the extent variable
16 charges are used to recover fixed costs, then the FCA/decoupling comes more into
17 effect.

18 **Q. Does this conclude your testimony?**

19 **A.** Yes, it does.

¹⁷ McCloy, p. 12, lines 18-19.