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IDAHO PUBLIC
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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION TO INCREASE ITS RATES AND CHARGES FOR ELECTRIC AND NATURAL GAS SERVICE FOR ELECTRIC AND NATURAL GAS CUSTOMERS IN THE STATE OF IDAHO	)	**CASE NO. AVU-E-23-01; AVU-G-23-01** **SETTLEMENT TESTIMONY** **IDAHO CONSERVATION LEAGUE AND NW ENERGY COALITION**

SETTLEMENT TESTIMONY OF LAUREN McCLOY
FOR AND ON BEHALF OF NW ENERGY COALITION AND
THE IDAHO CONSERVATION LEAGUE

July 12, 2023

[1] Order No. 35718

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Lauren McCloy, my business address is 811 1st Ave, Suite 305, Seattle, WA 98014.

Q. Please state your employer and position.

A. I am the Policy Director for the NW Energy Coalition.

Q. Please describe your educational and professional background.

A. As Policy Director for NW Energy Coalition, I support and guide the Coalition's policy work in the four Northwest states, including Idaho, and also our work on regional and federal issues, including regional planning, markets, and federal infrastructure funding. I have appeared as an expert witness before the Washington Utilities and Transportation Commission and the Oregon Public Utilities Commission. Previously, I worked as Senior Policy Advisor to Washington Governor Jay Inslee, where I led and managed a broad range of issues in support of the Governor's energy priorities. In this role, I also represented Washington state on the Western Interstate Energy Board, and the Northwest Energy Efficiency Alliance Board. Prior to serving in that role, I was the Legislative Director for the Washington Utilities and Transportation Commission ("UTC" or "Commission"), where I served as the Commission's liaison to the Washington state Legislature and the Governor's office, coordinated the UTC's legislative activities, and advised Commissioners on energy policy and legislative issues. Before joining the UTC's policy staff, I worked as a Compliance Investigator in the UTC's Consumer Protection Division. I completed Utility Regulation 101 training with the National Regulatory Research Institute in 2015 and Rate Spread and Rate Design training with EUCI in 2016. I have a B.A. from the University of

North Carolina at Chapel Hill and an M.S. in International Development from Tulane University Law School. My CV is included as Attachment 1, Exhibit No. 701. This is my first time filing testimony before the Idaho Public Utilities Commission.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to explain how specific elements of the proposed settlement in this case are not in the public interest. Specifically, I encourage the Commission to reject the rate design portions of the settlement, as straight-fixed variable rate design provides a negative price signal for energy efficiency and conservation, and disproportionately impacts lower-income and lower-usage customers. Lastly, I note that straight-fixed variable rate design is a form of decoupling and is duplicative given Avista's revenue decoupling through the Fixed Cost Adjustment mechanism (FCA).

Q. Please provide a summary of Avista's initial rate design proposal in this case.

A. In its initial application and testimony, Avista proposed to increase the customer charge for Schedule one (residential) from $7.00/month to $15.00/month in rate-year one, of its proposed two-year rate plan.[2] This would be accompanied by an increase in the variable rate for each of the two rate blocks.[3] In rate-year two, the customer charge would be increased again, to $20.00/month, with a miniscule decrease to the variable charge (less than one-tenth of one cent per kwh) necessary to meet the proposed revenue requirement.[4] As a result of the increase to the revenue requirement and the rate design, the average customer using 927 kwhs per month would see an increase to their electric bill of $13.18/month

[2] Miller, Di-9, line 14
[3] *Id.* at lines 15-16
[4] Miller Di-9-10, lines 21-2.

(representing a 15.4% increase) in 2023[5] and an additional increase of $4.66/month (4.7% increase) on 2024.[6]

Q. Does the settlement address Avista's rate design proposal?

A. It does, very briefly. Paragraph 20 of the settlement accepts all of the changes to rate design for the residential class. Appendix F to the Settlement confirms the increase of the customer charge as proposed by Avista - $15 in rate-year one, and $20 in rate-year two.

Q. Do you support the settlement's rate design provisions?

A. I do not. Arbitrarily increasing the customer charge to a figure that "more closely" aligns with the entirety of fixed costs to serve customers does not meet the basic principle of cost causation, a principle that the utility and settling parties appear to inappropriately value over other principles of rate design.[7]

Q. Please explain.

A. The customer charge (also called the basic charge, or fixed charge) has a specific purpose. That purpose is indeed to recover costs. However, those costs are limited to the costs of customer service, metering and billing. The Regulatory Assistance Project, leading experts in the field of rate design, confirm this definition of Customer Charge: "A fixed charge to consumers each billing period, typically to cover metering, meter reading and billing costs that do not vary with size or usage. Also known as a basic service charge or

[5] Miller Di-10, lines 6-7.
[6] *Id.* at line 12.
[7] For a thorough examination of rate design, the Commission should consider James Bonbright's *Principles of Public Utility Rates.* The seminal work was updated by the Regulatory Assistance Project in *Smart Rate Design for a Smart Future.* Karl Rábago and Radina Volova also revisited Bonbright's work in *Revisiting Bonbright's principles of public utility rates in a DER world*.

standing charge."[8] The Idaho PUC has also accepted this definition: "Customer Charge – a recurring or fixed charge to recover a portion of the cost of meter reading and billing."[9]

Generally speaking, "cost causation" means that costs should be paid for by the customers who cause the utility to incur the expense. In this case, the costs incurred by the utility to provide customer service, metering and billing to residential customers should be the only costs included in the basic charge. The settlement's proposed basic charges - $15 in year one and $20 in year two – violate the principle of cost causation. These charges do not relate to the costs of meter reading and billing, but instead appear to be randomly selected, and are intended to move closer to recovering *all* of Avista's fixed costs customer charge.

Q. Are there other reasons why utilities favor high basic charges?

A. Yes. Most importantly to utilities, high fixed charges provide a higher guarantee of revenue. Simply, the utility can know exactly how much revenue they will bring in even if every customer failed to use any energy at all. That equation is simply: number of customers x fixed charge = guaranteed revenue. Increasing either of the inputs will inherently lead to a higher end number, or product. However, when the customer charge is set appropriately, by including only the appropriate costs as I describe above, changing the number of customers does not change net revenue because the utility must incur the cost of serving each additional customer. Increasing the fixed charge, on the other hand, does increase net revenue because each additional customer will take on costs that are already being paid for by other customers, at least until the next rate case. Utilities prefer this outcome because: a) higher guaranteed revenue means less risk, and b) there is an increased chance that they can

[8] Lazar, J., Chernick, P., Marcus, W., and Lebel, M. (Ed.) (2020, January). *Electric cost allocation for a new era: A manual.* Montpelier, VT: Regulatory Assistance Project. P. 259.
[9] https://puc.idaho.gov/FileRoom/PublicFiles/tariff/water/Rocky%20Moutain%20Utility%20Company.pdf.

over-recover fixed costs not related to customer service, billing, and metering. That is the reason why the customer charge can be described as such, and "should not exceed the customer-specific costs associated with an additional customer" being added to the system.[10]

Q. Has the Idaho Commission recently weighed in on the issue of basic charges?

A. Yes. The Idaho Commission recently issued Order No. 35802 in Docket PAC-E-22-15, approving Rocky Mountain Power's request to institute a "Rate Modernization Plan" and increasing the customer charge from $8.00 to $29.25 over five years.

Q. What was the rationale for that decision?

A. In that order the Commission stated that high customer charges provide for "energy bill stabilization"[11] and "summer and winter bills [that are] more levelized."[12]

Q. Do you agree with this rationale?

A. While I agree that rate stabilization is a principle of sound rate design, I don't believe that higher fixed charges will achieve that goal.

Q. Why do increased fixed charges not equate with rate stabilization?

A. Simply put, fixed costs are not responsible for much of the variability in utility costs, and thus rates. Rather, it is the volatility of fuel inputs (namely, natural gas) and market purchases – i.e. variable costs – that are the primary culprit for price volatility. Indeed, according to an industry-focused energy consulting firm: "A key factor to keep top of mind is the fact that electricity is closely tied to natural gas. The general rule of thumb is that where natural gas prices go, electricity prices follow. Retail electricity prices are largely

[10] Lazar, J. and Gonzalez, W. (2015). Smart Rate Design for a Smart Future. Montpelier, VT: Regulatory Assistance Project. http://www.raponline.org/document/download/id/7680.
[11] Order No. 35802, page 11.
[12] *Id.,* page 10.

driven by natural gas prices, which are driven by several related factors, including supply & demand. We're currently experiencing both rising demand *and* a tighter supply"[13] (emphasis added). The increase in occurrences of extreme weather events attributable to climate change impact both supply and demand.

As a result, increasing the fixed charge, which is tied to *fixed costs,* is not going to provide much in the form of rate stability. Conversely, if the Commission is concerned about price volatility – and it should be – it should give more scrutiny to the Power Cost Adjustment mechanism (PCA) which relates to volatile variable costs.

Q. Are there other considerations the Commission should take into account when establishing the customer charge?

A. Yes. Aside from the fundamental tenet that the customer charge should include only the costs of customer service, metering, and billing, the Commission should consider the interplay between high fixed charges and the Fixed Cost Adjustment mechanism (FCA), as well as negative impacts to energy efficiency acquisition and low-income customers.

II. HIGH FIXED CHARGES AND THE FIXED COST ADJUSTMENT MECHANISM

Q. What do you mean when say the interplay between high fixed charges and the FCA?

A. The proposal to increase the customer charge is a move in the direction of straight-fixed variable ("SFV") rate design. Simply put, under a SFV paradigm, the utility collects all its "fixed costs" in fixed charges and all its variable costs in variable charges. The

[13] APPI Energy. *Why do natural gas and electricity go hand-in-hand?* https://www.appienergy.com/whats-causing-volatility-in-the-energy-market/

problem with that is that anything can be considered a fixed cost if looked at from a long enough time period. As I note throughout my testimony, there are inherent problems with SFV, or any increase to the customer charge that is outside of its purpose of collecting costs related to serving an additional customer.

On top of that, the Commission should take note that SFV rate design is a form of decoupling. When all of the fixed costs are paid through a fixed rate, the company's revenues are not reliant on the amount of kilowatt-hours sold. Thus, revenue is *decoupled* from sales. However, this form of decoupling is not preferred because of the inability for customers to control costs, as I discuss below, as well as the likelihood that the utility earns above its authorized revenue requirement through increased customer growth.

In this case, the Commission should take note that Avista is already decoupled, through a mechanism known as "revenue decoupling." The Fixed Cost Adjustment (FCA) ensures that Avista's authorized fixed costs are recovered, nothing more and nothing less. If the utility over-collects the authorized amount that it needs to recover its fixed cost investments (plus a rate of return), customers are afforded a rebate. Conversely, if the utility under-collects due to cost-effective investments in energy efficiency, a surcharge is assessed. This two-way arrangement ensures that both the utility and its customers are protected from volatility in sales.

Higher fixed charges, however, represent a one-way street, in favor of the utility. This is because, as previously discussed, high fixed charges provide only a floor for utility recovery, but there is no ceiling whereby customers are provided a rebate if the utility over-collects its revenue requirement.

If the Commission were to accept the settlement, it would be authorizing a move toward SFV rate design for a company that already has a decoupling mechanism in place. Essentially, it would be providing the utility both a belt and suspenders.

Q. How do high fixed charges impact recovery under the FCA?

A. SFV rate design, or any move in that direction – by which I mean any increase in the customer charge that includes costs not associated with customer service, metering and billing – inherently provides a benefit to the utility without a corresponding benefit to customers. This is also true when considering a utility that has already been granted revenue decoupling, like Avista. If granted, customers could be saddled with a double surcharge: the first via the increase to the customer charge, and the second due to any under-collection and thus surcharge via the FCA. There is no possibility for a double rebate however. The best a customer could hope for is offsetting charges, with the increase in the customer charge offset by a decrease in rates due to overcollection and the accompanying rebate via the FCA. The likelihood that this happens every year, however, is miniscule. Either way, customers are always assessed a surcharge via the increase in the basic charge.

III. ENERGY EFFICIENCY AND CONSERVATION

Q. How does the customer charge relate to energy efficiency and conservation?

A. The importance of energy efficiency and conservation stems from the fact that not only does the resource reduce individual customer bills, it reduces overall system cost by reducing peak demands and avoiding expensive generation and transmission upgrades.[14]

[14] Baatz, B. *Everyone Benefits: Practices and Recommendations for Utility System Benefits of Energy Efficiency*, ACEEE. June 2015. https://www.aceee.org/research-report/u1505

However, higher fixed charges, and thus lower energy charges, means customers have less incentive to reduce their electricity use because they are required to pay the higher fixed charge regardless of energy use.[15] As noted by the National Association of Regulatory Utility Commissioners (NARUC), "it may be more reasonable to lower the fixed costs and increase the volumetric rate, which would send a more efficient price signal."[16]

Q. How does the settlement impact energy efficiency and conservation?

A. Because the settlement, by simply agreeing to Avista's rate design proposals, significantly increases the customer charge over the two-year rate plan, utility customers and the utility itself will have a decreased incentive to pursue energy conservation.

Q. How would customers have a decreased incentive to pursue energy efficiency and conservation as a result of the settlement?

A. As proposed in the settlement, an increased fixed charge is accompanied by a decrease in what would have been collected in the variable charge. However, the variable charge is the only one of the two in which customers can control their costs. The fixed customer charge remains the same no matter how much a customer uses. Thus, if the fixed charge is high and the variable charge is low, or lower, customers will not save as much on their energy bill by choosing to either use less energy (conservation) or investing in more efficient equipment (efficiency). As a result, customers are less motivated to participate in utility efficiency programs, and less able to control their bills by reducing their usage. This

[15] Southern Environmental Law Center, *A Troubling Trend in Rate Design: Proposed Rate Alternatives to Harmful Fixed Charges. https://legacy.uploads.southernenvironment.org/news-feed/A_Troubling_Trend_in_Rate_Design.pdf*

[16] NARUC Manual on Distributed Energy Resources Rate Design and Compensation. https://pubs.naruc.org/pub/19FDF48B-AA57-5160-DBA1-BE2E9C2F7EA0

could also affect customer adoption of distributed generation, with a high fixed charge extending the payback period for residential investment in solar.

Q. How would the utility have a decreased incentive to pursue energy conservation?

A. The utility would have a decreased incentive because it must prove to the Commission that its energy efficiency expenditures are cost-effective. Any cost-effectiveness calculation must consider the amount of savings a measure would achieve. As noted above, the decreased price signal in the variable energy charge will inherently lessen the desire for customers to participate. As a result, when a utility plugs in less anticipated (or realized) savings into their cost-effectiveness equation, fewer measures will pass the test with a ratio of 1.0 or higher.

Q. Why should the Commission be concerned about a decreased incentive to invest in energy efficiency and conservation as a result of the settlement?

A. Simply put, cost-effective energy efficiency is inherently the cheapest energy resource. It's also the most reliable, since once installed, the resource is all but guaranteed to show up. Any concern about price volatility should be coupled with energy efficiency as the number-one solution. The price of a resource that is not needed is inherently the least volatile, as its cost remains a flat $0.00. Furthermore, as commissions and utilities express concern about resource adequacy and the ability to meet peak load, energy efficiency and conservation is the cheapest and fastest way to ensure that reliability is maintained.

IV. LOW-INCOME

Q. How does the settlement relate to issues concerning low-income customers?

A. Simply put, higher fixed charges disproportionately impact low-income customers because in many jurisdictions they tend to have lower than average energy use.[17] High fixed charges increase total costs for lower energy users while decreasing costs for high energy users. As a result, the higher fixed charge means that low-income customers will see an increased energy burden (percentage of income spent on energy bills) and a decrease in the ability to spend dollars in other parts of the economy.

The impact to low-income customers is compounded when taking into consideration weatherization and efficiency efforts will have a significantly lower benefit due to the requirement to pay the higher fixed charge regardless of energy usage. For these reasons, thirty-three groups representing consumer, low-income, environmental, and technology-specific advocates signed a letter to NARUC stating, "We are also concerned that imposing increased fixed charges…may stifle development of nascent technology, discourage innovation, reduce customer control over electricity costs and disproportionately harm low-use and low-income users."[18]

Q. Would an increase to the revenue requirement without changes in rate design also hurt low-income customers?

A. Yes. Any increase in costs passed onto customers without a meaningful increase in weatherization, bill discount, and bill assistance will disproportionately impact low-income

[17] *See* Low Income Home Energy Data for FY 2017, U.S. Department of Health and Human Services, p. 3, showing that non-low income households use, on average, 64.1 MMBTU of electricity per year, while low-income households use 50.4 MMBTU, and LIHEAP recipients using 53.7 MMBTU. *See also* Lebel, Mark et al., *Smart Rate Design for Distributed Energy Resources*, Regulatory Assistance Project, November 2021, p. 50.

[18] https://blogs.edf.org/energyexchange/files/2016/06/Good-Rate-Design-Process-Letter-to-NARUC.pdf

customers. That impact is compounded with rate design changes that require lower energy users to pay a higher share of the total costs.

V. RECOMMENDATIONS AND CONCLUSIONS

Q. What are your recommendations regarding the settlement?

A. While I don't have a position on other elements of the settlement, I recommend the Commission reject the rate design portion and keep the customer charge at $7.00/month. If the Commission accepts the settlement in whole, I recommend the Commission also require the following:

- Require Avista to alter its cost-effectiveness calculation for energy efficiency to account for any decrease in participation in its DSM programs as a result of the increase in the customer charge. This could include instituting a 10% conservation preference adder as directed by the Northwest Power Act of 1980 in order to account for hard-to-quantify benefits of energy efficiency.
- Require Avista to increase funding for low-income weatherization, and provide a bill discount to help offset the increase in the customer charge for low-income customers.
- Open an investigatory docket into the interplay between the high fixed charges and revenue decoupling.

Q. Does this conclude your testimony?

A. Yes it does.

Lauren Craig McCloy

[redacted]
lauren@nwenergy.org

SUMMARY OF QUALIFICATIONS

Strong research, analytical, project management, and communication skills; experience working with and managing diverse groups; knowledge of energy technologies, markets, environmental policies, programs, regulatory environment; advanced degree with coursework in economics, statistics, law and public policy; traveler and volunteer

EDUCATION

Tulane University Law School: M.S. International Development (May 2011)
University of North Carolina-Chapel Hill: B.A. in History (Aug. 2005)

EXPERIENCE

Policy Director | NW Energy Coalition | Seattle, WA | Feb. 2021 - present
Guided the Coalition's policy staff work on priorities in the four Northwest states; Engaged directly with Governor's offices, executive agencies, state Legislators, Congressional offices, and state utility commissions on policy and regulatory issues; Collaborated with Coalition board, members, and allies on energy planning, program, and market issues throughout the region and the West.

Senior Energy Policy Advisor | Office of Governor Jay Inslee | Olympia, WA | Oct. 2017 - Jan. 2021
Advised Governor Inslee and executive team on an array of clean energy and climate policy issues; crafted and shepherded legislative and budget proposals, including the 2019 Washington Clean Energy Transformation Act; guided executive branch energy policy implementation; collaborated and engaged with stakeholders, legislators, and regional partners on energy issues; represented the administration at public events

Legislative Director / Energy Policy Advisor | Washington Utilities and Transportation Commission (WUTC) | Olympia, WA | Jan. 2014 – Oct. 2017
Advised utility commission on an array of energy policy issues, analyzed testimony in administrative proceedings and prepared briefing materials, drafted administrative orders, staff investigation reports, and policy statements. Developed agency legislative strategy; managed development and submittal of agency request legislation and reports; testified at legislative hearings, represented UTC in development of state policy initiatives

Compliance Investigator | WUTC | Olympia, WA | May-Dec. 2013
Conducted investigations of regulated companies to determine compliance with consumer protection rules and laws and testified at hearings

Committee Assistant | Senate Ways & Means Committee | Olympia, WA | Jan. - May 2013
Produced member bill books and budget documents, published agendas, managed public testimony sign-in application; provided research support to committee staff

Practice Assistant | Stoel Rives LLP, Energy Development Group | Seattle, WA | Mar. – Dec. 2012
Tracked regulatory and policy developments in the energy industry; drafted energy law newsletters, blogs, and client correspondence; prepared legal filings and presentations

Policy Intern | Northwest SEED | Seattle, WA | Aug. 2011 - Mar. 2012
Tracked and analyzed energy legislation; drafted testimony and comments on WUTC rulemakings and reports from government agencies, created database of members and allies; executed email marketing campaigns and membership recruitment efforts

Solar Coordinator | Alliance for Affordable Energy | New Orleans, LA | Sept. 2010 - Aug. 2011
Fulfilled the Alliance's deliverables under contract with the City of New Orleans for the U.S. Department of Energy's Solar America Cities Program

Solar Tech / Co-owner | South Coast Solar / SSI | New Orleans, LA | Aug. 2008 - Sept. 2010
Sold, designed, and installed photovoltaic and solar hot water systems in the Greater New Orleans area.

PROFESSIONAL AFFILIATIONS

American Council on Germany: McCloy Fellow on Global Trends (2017)
National Association of Regulatory Utility Commissioners (NARUC): Vice Chair of the Staff Subcommittee on International Relations (2017)
North American Board of Certified Energy Practitioners: Certified PV Installer (2010)
Energy Efficiency Specialist: Delgado Community College, New Orleans, LA (2009)

COMPUTER SKILLS

Microsoft Office (Word, Powerpoint, Excel, Outlook), Adobe Acrobat, SPSS, Salesforce, Google Docs, Sharepoint, WordPress, social media and email marketing applications

CERTIFICATE OF SERVICE

I hereby certify that on this 12th day of July, 2023, I delivered true and correct copies of the foregoing SETTLMENT TESTIMONY in Case No. AVU-E-23-01; AVU-G-23-01 to the following persons via the method of service noted:

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