BEFORE THE

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IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR AUTHORITY 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-21-01 AVU-G-21-01

DIRECT TESTIMONY OF MICHAEL LOUIS IN SUPPORT OF THE STIPULATION AND SETTLEMENT

IDAHO PUBLIC UTILITIES COMMISSION

JULY 19, 2021

Q. Please state your name and business address for the record.

A. My name is Michael Louis. My business address is 11331 W. Chinden Blvd., BLDG 8, STE 201-A, Boise, Idaho 83714.

Q. By whom are you employed and in what capacity?

A. I am employed by the Idaho Public Utilities Commission as the Engineering Section Program Manager.

Q. What is your educational and professional background?

A. My educational background and professional experiences are shown in Exhibit No. 102.

Q. What is the purpose of your testimony and how is your testimony organized?

A. The purpose of my testimony is to provide support for the comprehensive Stipulation and Settlement ("Settlement") filed as a result of the Settlement reached between the Parties in both the electric and natural gas cases. Specifically, my testimony addresses concerns related to: (1) net power supply expense and transmission-related expenses ("PSE") included in the electric case revenue requirement and the adjustments that were made from the original Application including the removal of the Rattlesnake Flat and Palouse wind contracts from base PSE; (2) the removal of network upgrade investment costs from the revenue requirement associated with Rattlesnake Flat; (3) the spread of the 2021 and 2022 electric and natural gas revenue requirements among the different customer classes; and (4) changes to rate design for electric and natural gas rates. An outline of my testimony is as follows:

I. PSE in Electric Base Rates

Palouse Wind PSE Adjustment

Rattlesnake Flat PSE Adjustment

II. Rattlesnake Flat Network Upgrade Cost

III. Spread of Revenue Requirement to Customer Classes

Electric Revenue Requirement Class Allocation

Natural Gas Revenue Requirement Class Allocation

IV. Rate Design

I. PSE in Electric Base Rates

Q. What were your overall conclusions for base PSE included in the revenue requirement for electric?

A. I believe the PSE agreed to by the Parties is fair and reasonable because it represents an amount that the Company will likely incur given what is known and measurable and because the amount is adjusted for costs that are driven by Idaho customers' needs and requirements.

Q. Please summarize the PSE included in the Settlement and the adjustments made to the amount included in the Company's original Application.

A. If the Settlement is approved, the total amount of annual PSE in electric base rates will be $126 million for the system, of which $43 million is Idaho's jurisdictional share. Idaho's share reflects five adjustments to the Company's requested PSE amount as summarized in the table below for a total reduction of about $5 million in PSE:

ADJUSTMENTS	$ (000)
Removal of Palouse Wind (decrease)	(3,717)
Removal of Rattlesnake Flat (decrease)	(232)
Update to Electric and Gas Forecast (increase)	1,878
Idaho Power Transmission Contracts (decrease)	(1,105)
FERC General Rate Case (decrease)	(1,399)
Remove BPA Contract (decrease)	(383)
Total Adjustments	**(4,958)**

Q. What were your major concerns regarding the PSE filed in the original Application?

A. My two greatest concerns were the inclusion of Palouse Wind and Rattlesnake Flat wind projects. Staff also evaluated potential known and measurable Pro Forma updates to PSE that should occur prior to rates going into effect on September 1, 2021.

Palouse Wind PSE Adjustment

Q. What is your concern with the Palouse Wind project relative to PSE?

A. I was concerned with the prudence of including Palouse Wind in base PSE as in the Company's Application. The Palouse Wind project has not been included in Idaho base rates since it was originally submitted for base rate recovery in Case No. AVU-E-12-08. In that case, "Staff objected to the project because the Company acquired it to satisfy a Washington State Renewable Portfolio Standard without any immediate need to serve load. Moreover, Staff determined that the project's PSE would exceed project benefits under near term normalized load and power supply conditions." Lobb, DI, Case No. AVU-E-12-08, p. 13. For settlement purposes in Case No. AVU-E-12-08, the net cost/benefits have been tracked and recovered through the Power Cost Adjustment ("PCA") mechanism with 90%/10% Company/Customer sharing band that effectively allows the Company to recover 90% of Palouse's contribution to PSE.

In the general rate cases that followed, the cost difference of the contract rates compared to market rates, including the comparison I completed in this case, have maintained a sizable difference supporting Staff's view that the project is uneconomic for Idaho customers. The treatment through the PCA effectively provides a 10%

discount for the cost of the project's power for Idaho customers, has been maintained in all subsequent general rate cases.

Q. How were the concerns with Palouse Wind PSE addressed in the Settlement in this case?

A. The Settlement maintains the same PCA treatment as in past general rate cases for the cost of Palouse Wind power, which on balance with the overall Settlement, provides reasonable PSE for Idaho customers.

<u>Rattlesnake Flat PSE Adjustment</u>

Q. What is your concern with the Rattlesnake Flat project relative to PSE?

A. Like the Palouse Wind project, I was concerned with the prudence of including Rattlesnake Flat in base PSE, especially since the project went online in 2019 several years before a need for capacity to meet load.[1] Without a need for capacity, the project is required to meet an economic threshold defined by the next best alternative. As in the case of Palouse Wind, I believe that market electricity cost for the same amount of generation serves as a good proxy for evaluation purposes.

[1] December 2026 was the first capacity deficiency date authorized in Order No. 33958 at the time when the project went online. November 2026 was the first capacity deficiency date authorized in Order No.34981 when this case was filed.

In Case No. AVU-E-19-04, Staff had concerns about the impact Rattlesnake Flat had on PSE. In Staff's analysis, market electricity price forecasts from their most recent IRP were less expensive than Rattlesnake Flat contract prices, while adjusting for wind integration costs and renewable energy credits ("REC") earned by the project, over the term of the contract.

The Settlement between the parties in Case No. AVU-E-19-04 utilized the same treatment as Palouse Wind, leaving the cost of Rattlesnake Flat out of base rates and flowing the project's PSE through the PCA, effectively reducing PSE of the project by 10%.

Staff's analysis in this case showed similar results as those in Case No. AVU-E-19-04 general rate case. Staff analysis showed the cost of the Rattlesnake Flat project over the term of the contract being higher than market rates, even when adjusting for potential REC revenue, wind integration costs, and network upgrade costs associated with the project.

Q. How were concerns with the PSE of Rattlesnake Flat addressed in the Settlement in this case?

A. The Settlement maintains the same PCA treatment for Rattlesnake Flat as was negotiated in Case No. AVU-E-19-04, by not including the cost of the project in base rates but flowing it through the PCA at 90%. Staff believes the treatment of Rattlesnake Flat in this Settlement makes the project's contribution to PSE reasonable for Idaho customers.

Miscellaneous PSE Pro Forma Adjustments

Q. What other adjustments to PSE did the Settlement address?

A. The Settlement incorporated four other adjustments to PSE in base rates. Three of these adjustments represent a decrease in base PSE, while the fourth—an update in the natural gas price forecast—represents an increase in base PSE.

The three adjustments that resulted in decreases were adjustments to costs and revenues with outside entities. These include (1) new firm transmission contracts with Idaho Power that will earn the Company additional revenue; (2) incremental transmission revenue that will result from a Federal Energy Regulatory Commission rate case that will be completed by the end of 2021; and (3) a reduction in transmission cost resulting from a Bonneville Power Agency contract that was not renewed.

Q. Please explain the increase in PSE due to an update in the electric and natural gas forecast.

A. Unlike other types of expense, the Company uses projected PSE dispatch costs developed through an AURORA model run starting with the date that customer rates go into effect. An historical test period is used to normalize loads and resource costs. Exceptions are the market natural gas and electricity price forecasts, which are major drivers of dispatch cost for the Company's gas-fired generators and for electricity market prices that the Company purchases from the Mid-Columbia trading-hub. Because the forecasts are based on forward contract prices, they represent the best indicators of future natural gas and electricity prices, at least in the near term when there is a sufficient volume of trading.

Staff has historically requested the Company run its AURORA model with the latest natural gas forecast to get the most accurate dispatch cost included in base PSE. In the past several general rate cases, while the price of natural gas was experiencing a declining trend, incorporating the latest natural gas price has resulted in updates to PSE in the customer's favor. However, more recently market fundamentals have caused market prices to trend upwards compared to the forecast submitted in the Application making it reasonable to reflect higher PSE due to anticipated higher future natural gas prices.

II. Rattlesnake Flat Network Upgrade Cost

Q. What is your concern with Rattlesnake Flat Interconnection Costs that were included in plant-in-service in the Company's Application?

A. I was concerned with the cost of the network upgrades on the Company's side of the point of interconnection. Given that I could not recommend a determination of prudence to include the Rattlesnake Flat project in base rates from a PSE standpoint, which included adjustments for the cost of the network upgrades, it would not be reasonable to determine the network upgrade costs are prudent from an Idaho ratepayer perspective, since the wind project was the cause of the network upgrades cost. Essentially, the investment in network upgrades without the Rattlesnake Flat wind project would not be needed.

Q. How were these same network costs handled in the settlement agreement approved by the Commission in the last general rate case, Case No. AVU-E-19-04?

A. The network upgrade costs were not included.

Q. How was your concern addressed in the Settlement in this case?

A. The Parties agreed to not include the network upgrade costs in the Company's plant-in-service for this case.

III. Spread of Revenue Requirement to Customer Classes

Electric Revenue Requirement Class Allocation

Q. Please summarize the class allocation of the revenue requirement for electric service in the Settlement.

A. The two-year rate plan in the Settlement utilizes available tax credits owed to customers as discussed in Staff witness English's direct testimony. The tax credits would be used to offset portions of the increases in base rates over both years. The tax credits provided an opportunity for certain classes to make movements in the allocation of the revenue requirement to achieve greater equity based on their cost-of-service. For all other classes that did not include movements toward cost-of-service, base rate increases were spread on a uniform percentage basis.

Q. Please explain the movements in the class allocation towards cost-of-service in the Settlement.

A. The primary principle in cost-of-service-based ratemaking is to assign costs to the customer classes causing the cost so that rates for the various customer classes can be developed to recover the costs assigned to them. The Company's cost-of-service analysis results included in Company witness Tara Knox's direct testimony provides the rate of return for each customer class based on current rates. Dividing the rate of return for each customer class by the overall rate of return provides a Relative Return Ratio for each customer class. A customer class with a Relative Return Ratio equal to one (or at unity) is assumed to be paying no more and no less than its cost-of-service. A ratio greater than one indicates that the class is paying more than its fair share of costs, while a ratio less than one indicates that the class is not paying its fair share.

Relying on the results of the cost-of-service analysis as a guide, the Parties agreed to move 75% towards unity for Schedule 25P (Clearwater) starting in Year 1 of the rate plan and by moving Schedules 11/12 (small commercial service) customers by the same amount starting in Year 2. In both cases, these re-allocations were accomplished by allocating more of the revenue requirement to Schedule 1 (residential service) customers.

Q. Do you have any concerns with the class allocations in the Settlement?

A. I believe the reductions in the allocation of the revenue requirement towards unity for Schedules 11/12 and 25P by increasing the allocation for Schedule 1 customers are reasonable. Under current rates, Schedules 11/12 and 25P have both been overpaying their cost-of-service, while Schedule 1 customers have been paying less than their fair share. However, my largest concern is with the rate changes that occur at the end of Year 2.

Q. Please explain your concern with the rate changes at the end of Year 2 and overall rate plan in more detail.

A. There is a likelihood that there will be a "pancaking" of rates after the end of Year 2. This may negatively affect rate stability. After Year 2, the increase in base rates will be immediately reflected in customer's bills without the offset from the tax credits.

If the Company files another general rate case with an effective date soon after Year 2 ends, there will be an additional increase in customer rates.

However, it is important to consider that the impact of the tax credit refunds to customers, regardless of any other changes in rates automatically causes issues related to rate stability. It is the customer's money and the mere fact of providing a refund will cause a temporary change in customer rates reflected in customer bills.

It is possible to refund the tax credit amount over a longer period to lessen the effects on rate stability; however, doing so causes issues with intergenerational equity. If the period were extended, the body of customers who paid those taxes in the Company's rates may not necessarily be same customers receiving the refund due to customers who move into and out of the Company's service territory. Refunding the tax credit over a longer period to improve rate stability, would only increase these inequities.

However, I believe making progress in developing rates that adhere to the principles of cost-of-service rate making to provide equity across the customer classes is important. Balancing rate movements with rate stability is also important, otherwise no movements toward cost-of-service would ever occur. In this case, I believe the movements are justified and more easily facilitated because of the offsets from the tax credit refunds.

Natural Gas Revenue Requirement Class Allocation

Q. Please summarize the class allocation of the revenue requirement for natural gas service in the Settlement.

A. There are no changes in the class allocation percentages of the revenue requirement for natural gas service in the Settlement. All the decreases in base rate revenue requirement occurring during Year 1 of the two-year rate plan and the increases in Year 2 are spread to customer classes on a uniform percentage basis.

Q. Do you have any concerns with the class allocations or the overall rate plan in the Settlement?

A. I do not have any concerns. I believe the resulting spread of the rates to different customer classes is fair and reasonable, given that there are no changes in the current class allocation.

IV. Rate Design

Q. Please summarize changes in rate design incorporated into the Settlement.

A. For Year 1 of the two-year rate plan, all of the base rate revenue increases or decreases are recovered 100% through the energy charge for all rate schedules. The only meaningful change for Year 2 is a $1 per month increase—from $6 to $7—in the electric and natural gas Residential Basic Charge (Schedules 1 and 101).

Q. Please discuss the increase in the electric and natural gas Residential Basic Charge for Year 2.

A. The last increase in the Basic Charge resulted from Case Nos. AVU-E-17-01 and AVU-G-17-01. The increase was $0.25 from $5.75 to $6.00 for electric service and $0.75 from $5.25 to $6.00 for natural gas service.

The Basic Charge is designed to recover costs incurred on a per customer basis and these costs do not vary with the amount of electricity or natural gas consumed. Examples include billing costs, meter reading costs, and the cost of the meter. The current amount in the cost-of-service for these expenses is over six times as much as the existing $6 per month Basic Charge. By increasing the basic charge, it will also reduce the volumetric ($ per kilowatt-hour or $ per therm) portion of rates so customers should not see drastic changes in their total bill. However, it should increase rate stability with bills that vary less across all months of the year. For these reasons, I believe the increase in the Basic

Charge is reasonable.

Q. Does this conclude your testimony in this proceeding?

A. Yes, it does.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 19TH DAY OF JULY 2021, SERVED THE FOREGOING **DIRECT TESTIMONY OF MICHAEL LOUIS IN SUPPORT OF THE STIPULATION AND SETTLEMENT,** IN CASE NOS. AVU-E-21-01/AVU-G-21-01, BY E-MAILING A COPY THEREOF TO THE FOLLOWING:

PATRICK EHRBAR
DIR OF REGULATORY AFFAIRS
AVISTA CORPORATION
PO BOX 3727
SPOKANE WA 99220-3727
E-mail: patrick.ehrbar@avistacorp.com
avistadockets@avistacorp.com

DAVID J MEYER
VP & CHIEF COUNSEL
AVISTA CORPORATION
PO BOX 3727
SPOKANE WA 99220-3727
E-mail: david.meyer@avistacorp.com

BENJAMIN J OTTO
DAINEE GIBSON-WEBB
ID CONSERVATION LEAGUE
710 N 6TH ST
BOISE ID 83702
E-mail: botto@idahoconservation.org
dgibson-webb@idahoconservation.org

NORMAN M. SEMANKO
PARSONS BEHLE & LATIMER
800 WEST MAIN STREET SUITE 1300
BOISE ID 83702
E-mail: nsemanko@parsonsbehle.com

VICKI M BALDWIN
PARSON BEHLE & LATIMER
201 SOUTH MAIN STREET SUITE 1800
SALT LAKE CITY UT 84111
E-mail: vbaldwin@parsonsbehle.com

Electronic Service Only:
STEVE W CHRISS
DIRECTOR ENERGY SERVICES
WALMART INC
E-mail: Stephen.Chriss@walmart.com

RONALD L WILLIAMS
WILLIAMS BRADBURY PC
PO BOX 388
BOISE ID 83701
E-mail: ron@williamsbradbury.com

LARRY A CROWLEY DIRECTOR
THE ENERGY STRATEGIES INSTITUTE
3738 S HARRIS RANCH AVE.
BOISE ID 83716
E-mail: crowleyla@aol.com

PETER J RICHARDSON
RICHARDSON ADAMS PLLC
515 N 27TH STREET
BOISE ID 83702
E-mail: peter@richardsonadams.com

DR DON READING
6070 HILL ROAD
BOISE ID 83703
E-mail: dreading@mindspring.com

Electronic Service Only:
carol.haugen@clearwaterpaper.com
terry.borden@clearwaterpaper.com
malisa.maynard@clearwaterpaper.com

BRAD M PURDY
ATTORNEY AT LAW
2019 N 17TH STREET
BOISE IDAHO 83702
E-mail: bmpurdy@hotmail.com

Jo Nelson

SECRETARY