BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 288

In the Matter of AVISTA CORPORATION, DBA AVISTA UTILITIES Request for a General Rate Revision	NORTHWEST INDUSTRIAL GAS USERS' PREHEARING BRIEF

Pursuant to the Administrative Law Judge's Ruling in this matter dated June 5, 2015, Northwest Industrial Gas Users ("NWIGU") submits this Prehearing Brief in advance of the hearing. The purpose of this memorandum is to summarize NWIGU's testimony and positions with respect to rate spread. NWIGU is separately filing a joint prehearing brief with the Citizens' Utility Board ("CUB") addressing other issues raised in this proceeding.

I. INTRODUCTION

On May 1, 2015, Avista Corporation ("Avista" or "Company") filed revised tariff schedules to increase rates for Oregon gas retail customers in the amount of $8,557,000, or 8.0 percent of its annual revenues. The filing was suspended by the Commission on May 6, 2015, in Order No. 15-143.

In its original filing, the Company utilized the results of its Long Run Incremental Cost ("LRIC") study as a guide to spread the proposed margin/revenue increase. Specifically, the Company spread the proposed increase in a manner that would result in margin-to-cost ratios for the various service schedules moving closer to parity by having Schedules 410 and 420 receiving rate increases, with no rate changes for Schedule 440 and a 7.0% margin reduction for Schedules 424, 444 and 456.[1]

[1] Avista/1900, Ehrbar/1.

NWIGU performed its own LRIC study and demonstrated that while the Company's filing is a positive step in the right direction, the lack of parity between rate classes is even more severe than the Company's LRIC study indicates.[2] Staff similarly provided an LRIC study in response to the Company's filing and concluded "[a]s in the last general rate case for the Company (Docket 284), the cost of service conclusions that support substantial rate reductions for large industrial customers were corroborated by Staff's own studies."[3]

CUB is the only party that disagrees with the notion that large gas users should receive a rate decrease based on this record. CUB did not provide its own LRIC study like the other parties and, instead, bases its position primarily on policy arguments. CUB's specific position is that rates should be spread to customers such that that no customer class would receive any more than three times the increase of any other class.[4] As explained below, CUB's position is untenable because it would prevent the Company from ever achieving parity among customer classes.

II. NWIGU TESTIMONY AND POSITION

The Commission will find that it is undisputed in this proceeding that current distribution rates, on a relative margin-to-cost basis, result in some classes paying more than their respective allocated cost of service. The only disputes regarding the record are how far out of parity each class is, and the fairness of adjusting rates to bring them closer to parity.

The classes currently with distribution rates collecting more revenue than their allocated cost of service, according to the Company's LRIC study, include the Large General Service (Schedule 424), Interruptible Service (Schedule 440), Seasonal Service (Schedule 444), and Transportation Service (Schedule 456).[5] Distribution rates paid by the Residential Service (Schedule 410) and General Service (Schedule 420) classes, on the other hand, under collect the allocated cost of service for those classes.

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[2] NWIGU/100, Collins/4.
[3] Staff/1300, Compton/2.
[4] CUB/100, McGovern-Jenks/3.
[5] NWIGU/100, Collins/2.

While Avista's LRIC study is accurate to the extent it shows a lack of parity among rate classes, the Company's methodology understates that lack of parity. This is in large part because of the Company's reliance on a methodology that utilizes a "peak and average" approach of separating its system main investment into capacity and commodity components. The Company attempts to justify this approach by describing it as striking a balance between the way the system is designed (to meet peak demand) and the way it is actually utilized on an annual basis (i.e. throughput that occurs throughout the year).

The flaw with the Company's approach is that it designs its system (and therefore incurs costs) only on the basis of a peak demand.[6] The Company does not design its system based on annual throughput. If it did, it would likely under build the system and, on peak days, core customers entitled to service would not be served.

Another flaw with the Company's approach is that it double counts the "average" component of demand.[7] This is because average demand is used for both the "peak" and the "average" components of the calculation. This results in an over-allocation of costs to high load factor customers.[8]

NWIGU submitted its own LRIC study to the record, revising the Company's methodology and correcting for these flaws. NWIGU's approach shows that an even greater disparity exists among customer classes.[9] For example, under the Company's cost of service study modified by NWIGU, the Transportation Service Schedule 456 class would require a decrease of 37.74% in distribution margin revenue to bring its present rates to cost of service, compared to a decrease of "only" 29.94% under the Company's methodology. NWIGU's proposed cost of service for this class results in a decrease in present rates that is approximately 26% larger than the decrease calculated by the Company in its proposed cost of service study.[10]

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[6] NWIGU/100, Collins/3.
[7] NWIGU/100, Collins/3.
[8] NWIGU/100, Collins/3.
[9] NWIGU/102 at line 11.
[10] NWIGU/100, Collins/4.

Based on the record that has already been developed in this matter, it is clear that a rate reduction is warranted for large gas users. Rates for those classes are too far from parity to be reasonable and the Commission has an appropriate record before it on which to correct the disparity.

NWIGU is sensitive to the notion of rate shock and understands that the Commission must consider the impacts to other customer classes when it reduces rates for others. For that reason, NWIGU is currently willing to support the Company's filing, which would result in a 7.0% margin reduction for Schedules 424, 444 and 456. Based on the LRIC study provided by NWIGU, a larger reduction is warranted, but NWIGU is supportive of an incremental approach in order to avoid rate shock to other customer classes. Under the Company's approach, rate schedules for large users would move closer to parity, and the residential and general classes would continue to under-collect based on their allocated cost of service.[11] In fact, Residential Schedule 410 would only slightly move from a 0.98 margin-to-cost ratio to a 0.99 margin-to-cost ratio.[12]

Staff agrees there is a disparity among rate classes and that "Staff's cost studies clearly support reducing the target margin revenues for Schedules 424, 444, and 456 by as much as the Company's proffered seven percent."[13] Staff does appear to take a more tempered approach and urges the Commission to limit a rate decrease for sales customers if the authorized overall average billing percentage increase is four percent or greater, or when the total billed rate to any other customers will be more than two percent greater than otherwise would have occurred.[14] Staff goes on to conclude, however, that such limiting factors are not present in this case and, therefore, the larger decrease of seven percent is warranted, especially in light of the small impact on residential customers of only 0.3%.[15]

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[11] Avista/1900, Ehrbar/3.
[12] Avista/1900, Ehrbar/3.
[13] Staff/1300, Compton/17.
[14] Staff/1300, Compton/17.
[15] Staff/1300, Compton/20.

Testimony provided by CUB asks the Commission to order Avista to spread the final revenue requirement to customers in a manner such that no customer class gets any more than three times the increase of any other class.[16] CUB's position is that there are policy considerations or other factors that should limit the Commission's reliance on the Company's LRIC study. For example, CUB asserts that when costs are generally rising, customers should not be given price signals, through lower rates, that costs are falling.[17] CUB also claims that it is the Commission's practice to never give rate decreases to one class when another class is receiving a rate increase.[18] NWIGU disagrees with these positions. As Staff noted in its testimony, large gas users are sophisticated and have the resources to pay attention to all components of their gas rates. They are therefore unlikely to receive the wrong price signal and will understand the basis for the rate reduction. The record also reflects recent examples of where this Commission has approved rate decreases for some customer classes simultaneously with rate increases for others where the record has supported such an outcome.

An important fact to note about CUB's testimony is that CUB does not provide its own cost of service study. Rather, CUB relies primarily on its policy arguments. Those arguments, however, do not support CUB's position that no decrease is warranted for large user rate schedules. CUB's mention of the principle of avoiding rate shock, for example, is broad in nature and simply provides a basis for limiting a rate increase to some customers in some circumstances. CUB does not explain whether the modest increase residential customers would experience under the Company's proposal would actually result in rate shock. Nor does CUB attempt to balance those increases with the demonstrated need for a decrease to other customers.

CUB's recommendation – to limit any increase to three times the increase of any other class – is unworkable and would never allow rates to achieve parity. Under CUB's approach, customer classes with disparately high rates would always have to bear the burden of some amount

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[16] CUB 100, McGovern-Jenks 42:2.
[17] CUB 100, McGovern-Jenks, 40:12.
[18] CUB 100, McGovern-Jenks 38:1.

of increase and could never gain any ground toward achieving lower rates in line with their cost of service.

III. CONCLUSION

The foregoing represents a summary of NWIGU's testimony in this matter and the current position it has taken on rate spread. Based on the record in this matter, a margin reduction for Schedules 424, 444 and 456 is warranted. Such an adjustment will serve to bring rates closer to parity without imposing an undue burden on other customer classes.

NWIGU is separately filing a joint brief with CUB to address other issues raised during these proceedings. NWIGU will continue to participate in this docket throughout the hearing and post-hearing briefing process, and will offer a final position and argument once the record is fully developed.

Dated this 23rd day of November 2015.

Respectfully submitted,

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