

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UG 288

In the Matter of)
)
AVISTA CORPORATION, dba)
AVISTA UTILITIES,)
)
Request for a General Rate Revision.)
_____)

**OPENING TESTIMONY OF BRIAN C. COLLINS
ON BEHALF OF
NORTHWEST INDUSTRIAL GAS USERS (“NWIGU”)**

October 16, 2015

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A.** Brian C. Collins. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017. I am employed by the firm of Brubaker & Associates, Inc.
4 (“BAI”), regulatory and economic consultants with corporate headquarters in
5 Chesterfield, Missouri. My qualifications are provided in Exhibit NWIGU/101.

6 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

7 **A.** I am testifying on behalf of Northwest Industrial Gas Users (“NWIGU”). NWIGU
8 members include diverse industrial and commercial interests that purchase sales and
9 transportation services from Avista Corporation dba Avista Utilities (“Avista” or the
10 “Company”).

11 **Q. WHAT IS THE SUBJECT MATTER OF YOUR TESTIMONY?**

12 **A.** My testimony addresses the Company’s natural gas Long-Run Incremental Cost of
13 Service Study (“LRIC Study”) and the Company’s proposed gas margin revenue
14 allocation. The fact that I do not address any particular issue should not be interpreted as
15 tacit approval of any position taken by any other party.

16 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS?**

17 **A.** My conclusions and recommendations are as follows:

18 1. The results of the Company’s LRIC study indicate that the current distribution rates,
19 on a relative margin-to-cost basis, for several classes result in those classes paying
20 more than their respective allocated cost of service and, therefore, are deserving of a
21 decrease in current distribution revenues.

22 2. If system main costs were allocated on a design day demand basis as opposed to the
23 peak and average basis as recommended by the Company, the LRIC Study would
24 indicate that certain classes are even further away from cost of service than the
25 Company’s LRIC Study results indicate.

26 3. Though distribution rates based on the modified LRIC study that allocates system
27 main costs to classes on a design day demand basis would properly move all class
28 distribution rates to cost of service, NWIGU supports the Company’s proposed class

1 margin revenue allocation since it makes a gradual movement to cost based rates for
2 all classes and does not subject any one class to rate shock.

3 **Q. ARE YOU SPONSORING ANY EXHIBITS IN CONNECTION WITH YOUR**
4 **TESTIMONY?**

5 **A.** Yes. I am sponsoring Exhibits NWIGU/101 through NWIGU/103.

6 **Q. HAVE YOU REVIEWED THE RESULTS OF THE LRIC STUDY PERFORMED**
7 **BY THE COMPANY?**

8 **A.** Yes, I have reviewed the results of the Company's LRIC Study. The results indicate that
9 the current distribution rates, on a relative margin-to-cost basis, for several classes result
10 in those classes paying more than their respective allocated cost of service and, therefore,
11 are deserving of a decrease in current distribution revenues. This is shown at Company
12 witness Joseph D. Miller's Exhibit No. 801, page 1 of 3. The classes whose current
13 distribution rates collect more revenue than their allocated cost of service indicated in the
14 Company's cost of service study include Large General Service (Schedule 424),
15 Interruptible Service (Schedule 440), Seasonal Service (Schedule 444), and
16 Transportation Service (Schedule 456). The Company's study also indicates that the
17 current distribution rates paid by the Residential Service (Schedule 410) and General
18 Service (Schedule 420) classes under collect their respective allocated cost of service.

19 **Q. DO YOU DISAGREE WITH ANY ALLOCATION WITHIN THE COMPANY'S**
20 **LRIC STUDY?**

21 **A.** I disagree with the Company's proposed allocation of system main related plant
22 investment costs.

23 **Q. PLEASE EXPLAIN YOUR DISAGREEMENT.**

24 **A.** The Company separated allocated system main related plant investment costs into both
25 capacity-related and commodity-related investment components. The peak and average
26 ratio was used by the Company to separate the system main investment into the

1 respective capacity and commodity components. According to the Company, the peak
2 and average ratio is intended to reflect a balance between the way the system is designed
3 (to meet peak demand) and the way it is utilized on an annual basis (throughput based on
4 gas usage that occurs during all conditions, not only on peak conditions). I disagree with
5 this approach because the peak and average methodology does not best reflect cost
6 causation on the Company's system.

7 **Q. WHY DOES THE PEAK AND AVERAGE RATIO NOT BEST REFLECT COST**
8 **CAUSATION ON THE COMPANY'S SYSTEM?**

9 **A.** While I agree that the Company's system is designed to meet system peak demand as
10 well as to connect its customers to the system, the Company does not utilize annual
11 throughput to actually design its system. Instead, the system is designed to accommodate
12 a peak day. As a result, annual throughput does not reflect how the Company incurs the
13 costs to meet the coincident peak demand of its customers, and therefore, does not best
14 reflect cost causation.

15 Further, the peak and average methodology is flawed because it double counts the
16 "average" component of demand. Thus, total usage, or average demand, is counted twice
17 in the allocation of demand costs, once in the peak allocation and again in the average
18 demand allocation. The impact of using the peak and average method to allocate
19 distribution main therefore results in an over-allocation of costs to high load factor
20 customers.

21 While it is appropriate to allocate system main investments on peak demand, as
22 well as on a customer component, it is not appropriate to allocate system main investment
23 costs on a volumetric basis, which is what the peak and average methodology does.

1 **Q. HOW DO THE COMPANY'S CURRENT DISTRIBUTION RATES COMPARE**
2 **TO CLASS COST OF SERVICE IF SYSTEM MAIN COSTS ARE ALLOCATED**
3 **ON A DESIGN DAY DEMAND BASIS?**

4 **A.** This is shown in Exhibit NWIGU/102 at line 11. For example, under the Company's cost
5 of service study modified by NWIGU, the Transportation Service Schedule 456 class
6 would require a decrease of 37.74% in distribution margin revenue to bring its present
7 rates to cost of service under the Company's cost of service study modified by NWIGU,
8 as compared to a decrease of only 29.94% under the Company's proposed cost of service
9 study. NWIGU's proposed cost of service for this class results in a decrease in present
10 rates that is approximately 26% larger than the decrease calculated by the Company in its
11 proposed cost of service study.

12 **Q. FOR WHAT PURPOSE HAVE THE COMPANY'S LRIC STUDY RESULTS**
13 **BEEN USED?**

14 **A.** According to the direct testimony of Company witness Mr. Joseph Miller, LRIC Study
15 results have been used to guide the allocation of the Company's proposed revenue
16 requirement to the Company's classes.

17 **Q. HAVE YOU ALSO REVIEWED THE COMPANY'S PROPOSED CLASS**
18 **REVENUE ALLOCATION?**

19 **A.** Yes. I have reviewed Exhibit 903 of Company Witness Mr. Patrick Ehrbar's direct
20 testimony which summarizes the Company's proposed class revenue allocation. The
21 Company's proposed class margin revenue allocation is summarized on Exhibit
22 NWIGU/103.

23 **Q. HOW DO YOU RESPOND TO THE COMPANY'S PROPOSED CLASS MARGIN**
24 **REVENUE ALLOCATION?**

25 **A.** The Company's proposed class margin revenue allocation does not fully move
26 distribution rates to cost of service. Moving class revenue allocations to their respective

1 indicated cost of service would result in class distribution rates that better reflect cost
2 causation for all classes. Distribution rates that reflect cost causation for all customers
3 would send proper price signals to all customer classes. The movement to cost-based
4 rates would also put the Company in a better position to collect each respective class cost
5 of service from all of its customer classes and help to eliminate revenue subsidies
6 between rate classes. That being said, NWIGU recognizes the need to gradually move
7 classes to cost based rates so that no class experiences rate shock. Though the
8 Company's proposed margin revenue allocation is not ideal since it does not completely
9 move rates to cost of service, NWIGU supports the Company's proposed margin revenue
10 allocation since it makes a gradual movement to cost based rates and doesn't subject any
11 class to rate shock.

12 **Q. DOES THIS CONCLUDE YOUR OPENING TESTIMONY?**

13 **A.** Yes, it does.

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EXHIBIT NWIGU/101

QUALIFICATIONS OF BRIAN C. COLLINS

October 16, 2015

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A.** Brian C. Collins. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 **Q. WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?**

5 **A.** I am an Associate in the field of public utility regulation with the firm of Brubaker &
6 Associates, Inc. (“BAI”), energy, economic and regulatory consultants.

7 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

8 **A.** I graduated from Southern Illinois University Carbondale with a Bachelor of Science
9 degree in Electrical Engineering. I also graduated from the University of Illinois at
10 Springfield with a Master of Business Administration degree. Prior to joining BAI, I was
11 employed by the Illinois Commerce Commission and City Water Light & Power
12 (“CWLP”) in Springfield, Illinois.

13 My responsibilities at the Illinois Commerce Commission included the review of
14 the prudence of utilities’ fuel costs in fuel adjustment reconciliation cases before the
15 Commission as well as the review of utilities’ requests for certificates of public
16 convenience and necessity for new electric transmission lines. My responsibilities at
17 CWLP included generation and transmission system planning. While at CWLP, I
18 completed several thermal and voltage studies in support of CWLP’s operating and
19 planning decisions. I also performed duties for CWLP’s Operations Department,
20 including calculating CWLP’s monthly cost of production. I also determined CWLP’s
21 allocation of wholesale purchased power costs to retail and wholesale customers for use
22 in the monthly fuel adjustment.

23 In June 2001, I joined BAI as a Consultant. Since that time, I have participated in
24 the analysis of various utility rate and other matters in several states and before the

1 Federal Energy Regulatory Commission (“FERC”). I have filed or presented testimony
2 before the Arkansas Public Service Commission, the Delaware Public Service
3 Commission, the Florida Public Service Commission, the Idaho Public Utilities
4 Commission, the Illinois Commerce Commission, the Indiana Utility Regulatory
5 Commission, the Minnesota Public Utilities Commission, the Missouri Public Service
6 Commission, the North Dakota Public Service Commission, the Public Utilities
7 Commission of Ohio, the Rhode Island Public Utilities Commission, the Virginia State
8 Corporation Commission, the Public Service Commission of Wisconsin, the Washington
9 Utilities and Transportation Commission, and the Wyoming Public Service Commission.
10 I have also assisted in the analysis of transmission line routes proposed in certificate of
11 convenience and necessity proceedings before the Public Utility Commission of Texas.

12 In 2009, I completed the University of Wisconsin – Madison High Voltage Direct
13 Current (“HVDC”) Transmission Course for Planners that was sponsored by the Midwest
14 Independent Transmission System Operator, Inc. (“MISO”).

15 BAI was formed in April 1995. BAI and its predecessor firm has participated in
16 more than 700 regulatory proceeding in forty states and Canada.

17 BAI provides consulting services in the economic, technical, accounting, and
18 financial aspects of public utility rates and in the acquisition of utility and energy services
19 through RFPs and negotiations, in both regulated and unregulated markets. Our clients
20 include large industrial and institutional customers, some utilities and, on occasion, state
21 regulatory agencies. We also prepare special studies and reports, forecasts, surveys and
22 siting studies, and present seminars on utility-related issues.

1 In general, we are engaged in energy and regulatory consulting, economic
2 analysis and contract negotiation. In addition to our main office in St. Louis, the firm
3 also has branch offices in Phoenix, Arizona and Corpus Christi, Texas.

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**EXHIBIT NWIGU/102
CLASS COST OF SERVICE**

October 16, 2015

**AVISTA UTILITIES
OREGON JURISDICTION
CLASS COST OF SERVICE**

Exhibit NWIGU/102

<u>Line No.</u>	<u>OREGON TOTAL</u> (1)	<u>Residential Service SCH 410</u> (2)	<u>General Service SCH 420</u> (3)	<u>Large General Service SCH 424</u> (4)	<u>Interruptible Service SCH 440</u> (5)	<u>Seasonal Service SCH 444</u> (6)	<u>Special Contract Service SCH 447</u> (7)	<u>Transportation Service SCH 456</u> (8)	
<u>COMPANY PROPOSED COST OF SERVICE</u>									
1	Distribution Margin Revenue at Present Rates	\$ 53,224,000	34,864,000	13,605,000	687,000	463,000	44,000	231,000	3,330,000
2	LRIC Based Cost of Service (Margin Revenue)	\$ 61,781,000	41,104,746	17,205,725	446,794	366,419	28,919	295,284	2,333,113
3	Current Distribution Margin Revenue to Proposed Cost of Service	0.86	0.85	0.79	1.54	1.26	1.52	0.78	1.43
4	Increase by Schedule	\$ 8,557,000	\$ 6,240,746	\$ 3,600,725	\$ (240,206)	\$ (96,581)	\$ (15,081)	\$ 64,284	\$ (996,887)
5	Increase as a Percent of Present Distribution Margin Revenue	16.08%	17.90%	26.47%	-34.96%	-20.86%	-34.28%	27.83%	-29.94%
6	Increase Index (Relative to System Average)	1.00	1.11	1.65	(2.17)	(1.30)	(2.13)	1.73	(1.86)
<u>NWIGU PROPOSED COST OF SERVICE</u>									
7	Distribution Margin Revenue at Present Rates	\$ 53,224,000	34,864,000	13,605,000	687,000	463,000	44,000	231,000	3,330,000
8	LRIC Based Cost of Service (Margin Revenue)	\$ 61,781,000	41,488,385	17,322,536	390,739	320,776	21,976	163,192	2,073,395
9	Current Distribution Margin Revenue to Proposed Cost of Service	0.86	0.84	0.79	1.76	1.44	2.00	1.42	1.61
10	Increase by Schedule	\$ 8,557,000	\$ 6,624,385	\$ 3,717,536	\$ (296,261)	\$ (142,224)	\$ (22,024)	\$ (67,808)	\$ (1,256,605)
11	Increase as a Percent of Present Distribution Margin Revenue	16.08%	19.00%	27.32%	-43.12%	-30.72%	-50.05%	-29.35%	-37.74%
12	Increase Index (Relative to System Average)	1.00	1.18	1.70	(2.68)	(1.91)	(3.11)	(1.83)	(2.35)

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**EXHIBIT NWIGU/103
COMPANY PROPOSED MARGIN**

October 16, 2015

**AVISTA UTILITIES
OREGON JURISDICTION
COMPANY PROPOSED MARGIN**

Exhibit NWIGU/103

<u>Line No.</u>	<u>OREGON TOTAL</u> (1)	<u>Residential Service SCH 410</u> (2)	<u>General Service SCH 420</u> (3)	<u>Large General Service SCH 424</u> (4)	<u>Interruptible Service SCH 440</u> (5)	<u>Seasonal Service SCH 444</u> (6)	<u>Special Contract Service SCH 447</u> (7)	<u>Transportation Service SCH 456</u> (8)	
<u>COMPANY PROPOSED MARGIN</u>									
1	Distribution Margin Revenue at Present Rates	\$ 53,224,000	34,864,000	13,605,000	687,000	463,000	44,000	231,000	3,330,000
2	LRIC Based Target Margin	\$ 61,781,000	40,788,357	16,521,913	638,910	463,000	40,920	231,000	3,096,900
3	Current Distribution Margin Revenue to Proposed Margin	0.86	0.85	0.82	1.08	1.00	1.08	1.00	1.08
4	Component LRIC Target Increase by Schedule	\$ 8,557,000	\$ 5,924,357	\$ 2,916,913	\$ (48,090)	\$ -	\$ (3,080)	\$ -	\$ (233,100)
5	Target Increase as a Percent of Present Distribution Margin Revenue	16.08%	16.99%	21.44%	-7.00%	0.00%	-7.00%	0.00%	-7.00%
6	Increase Index (Relative to System Average)	1.00	1.06	1.33	(0.44)	-	(0.44)	-	(0.44)
7	Proposed Margin to Proposed Cost of Service	1.00	0.99	0.96	1.43	1.26	1.42	0.78	1.33