

UG 366
Joint Testimony/ 100
Gardner, et.al.

**PUBLIC UTILITY COMMISSION
OF
OREGON**

UG 366

STAFF/AVISTA/AWEC/CUB EXHIBIT 100

**Joint Testimony in Support of Partial Settlement
Stipulation**

July 3, 2019

1 **Q. Please state your names and positions.**

2 A. My name is Marianne Gardner. I am employed by the Public Utility
3 Commission of Oregon (“PUC”) as the Program Manager, Rates and Accounting in the Rates,
4 Finance and Audit Division of the Utility Program. I am a graduate of Oregon State
5 University with a Masters of Business Administration and a graduate of Montana State
6 University with a Bachelor of Science in Accounting. I have approximately 22 years of
7 professional accounting experience, including cost accounting, public accounting, and non-
8 profit accounting. My responsibilities include research, analysis, and recommendations on a
9 range of cost, revenue and policy issues for electric and natural gas utilities. In this docket, I
10 am the Revenue Requirements Summary Witness for Staff.

11 My name is Jennifer S. Smith. I am employed by Avista Utilities (“Company”) as a
12 Manager of Regulatory Affairs in the Regulatory Affairs Department. I am a 2002 graduate
13 of Washington State University with a Bachelor of Arts Degree in Business Administration,
14 majoring in Accounting and Accounting Information Systems. After spending eight years in
15 the public accounting sector, I was hired into the State and Federal Regulation Department as
16 a Regulatory Analyst in January of 2010. In my current role as a Manager of Regulatory
17 Affairs, I assist in the preparation of normalized revenue requirement and pro forma studies
18 for all jurisdictions in which the Company provides utility services. I am also responsible for,
19 among other things, annual filings and various applications related to affiliated interest issues
20 and subsidiary operations.

21 My name is Bob Jenks. I am the Executive Director of the Oregon Citizens’ Utility
22 Board (“CUB”) located at 610 SW Broadway, Suite 400, Portland OR 97205. I am a graduate
23 of Willamette University with a Bachelor of Science Degree in Economics. I have provided

1 testimony and comments in a multiplicity of PUC dockets for the last twenty years. Prior to
2 joining CUB, between 1982 and 1991, I worked for the Oregon State Public Interest Research
3 Group, the Massachusetts Public Interest Group and the Fund for Public Interest Research on
4 a variety of public policy issues. As one of CUB's economists, my responsibilities include
5 the review of utility and telecom filings in Oregon on behalf of residential customers and in
6 this particular docket the representation of residential customers' concerns arising from
7 Avista's General Rate Case filing.

8 My name is Bradley G. Mullins, and I am an Independent Energy and Utilities Consultant
9 representing large energy consumers before state regulatory commissions. I am appearing in
10 this matter on behalf of the Alliance of Western Energy Consumers ("AWEC"), a non-profit
11 trade association of more than 50 commercial and industrial electric and gas users in the states
12 of Oregon, Idaho and Washington.

13 Hereafter, Staff, the Company, CUB and AWEC will collectively be referred to as the
14 "Parties."

15 **Q. What is the purpose of your joint testimony?**

16 A. The purpose of our joint testimony is to describe and support the Partial
17 Settlement Stipulation, filed on July 3, 2019, between Commission Staff, CUB, AWEC, and
18 the Company in Docket No. UG-366 (the "Stipulation"), which resolved certain, but not all,
19 issues among the Parties for the general rate increase filed on March 15, 2019. The Stipulation
20 is the product of settlement discussions, open to all parties to the UG-366 Docket.

Q. Have you prepared any Exhibits?

A. Yes. The Parties' Exhibit No. Joint Testimony/101 is the Partial Settlement Stipulation ("Stipulation") filed with the Commission on July 3, 2019.

Background

Q. Please describe the background behind the Company's original general rate case filing.

A. On March 15, 2019, Avista filed revised tariff schedules to effect a general rate increase for Oregon retail customers of \$6,677,000, or 7.8 percent of its annual revenues. The filing was suspended by the Commission on March 15, 2019, per its Order No. 19-092.

Pursuant to Administrative Law Judge Traci Kirkpatrick's Prehearing Conference Memorandum of May 2, 2019, a settlement conference was held on June 11, 2019, then on June 18, 2019, an additional settlement conference was held telephonically.

As a result of the settlement discussions held on June 18, 2019, the Parties have agreed to settle the following issues in this Docket, including certain adjustments to the revenue requirement and an agreement on a Third-Party Review of Interest Rate Hedging by Avista, subject to the approval of the Commission.

Q. What is the Company's position with respect to the need for additional rate relief?

A. The Company explained in its original filing that its need for additional rate relief is due primarily to increased capital investment in plant used to serve Oregon customers, as well as increased operating costs for the 2018 rate year. Over 92% (or approximately \$6.1 million) of the Company's request for additional rate relief relates to the increase in rate base.

1 and associated cost of capital. These investments reflect, among other things, replacement and
2 maintenance of Avista's utility system meant to sustain reliability, safety, and service to
3 customers. Major projects included in this total include the continued Aldyl-A pipe
4 replacement program, gas meter replacement, customer facing technology projects,
5 compliance with municipal requirements (i.e., street/highway relocations), and the overall
6 systematic replacement of aging infrastructure, among others.

7 The remaining 8% (or approximately \$0.6 million) of the Company's requested
8 revenue requirement relates to an increase in O&M and administrative and general ("A&G")
9 expenditures. These rate base and expense-related revenue requirement increases are net of
10 the change in retail revenues since our last rate case filed in 2016.

11 **Q. How many data requests has Avista responded to, and the general issues**
12 **explored.**

13 A. Avista has so far responded to 301 data requests, including 123 that were
14 provided along with the Company's filed case. The data requests covered a broad range of
15 areas including, but not limited to, cost of capital, capital additions, employee wages and
16 benefits, federal and state income taxes, working capital, operating and maintenance costs and
17 various administrative and general related expenses, as well as issues related to load
18 forecasting and Avista's long run incremental cost study. In Avista's view, discovery to-date
19 has been comprehensive and productive.

20
21 **Terms of the Partial Settlement Stipulation**

22 **Q. What revenue requirement adjustments to Avista's originally-filed case**
23 **are included in the Stipulation (Exhibit No. Joint Testimony/101)?**

A. Table No. 1, at page 2 of the Stipulation, is reproduced below, and provides a summary of the adjustments to Avista's originally-filed case:

Table No. 1 – Summary of Adjustments to Revenue Requirement and Rate Base

SUMMARY OF ADJUSTMENTS TO REVENUE REQUIREMENT AND RATE BASE (\$000s of Dollars)		
	Revenue Requirement	Rate Base
Amount as filed:	\$6,677	\$287,338
Adjustments:		
a Cost of Capital Adjusts return on equity to 9.40%, long-term debt cost to 5.07%, with a common stock equity component of 50%, and overall Cost of Capital of 7.24%.	(1,247)	-
b Interest Synchronization Includes the flow through of the federal and state tax impact on rate base adjustments due to the change in the cost of debt.	63	-
c Medical Benefits Includes a reduction to medical expenses to an agreed-upon level.	(115)	-
d Membership & Dues Reduces the Company's membership and dues expense to an agreed-upon level.	(2)	-
e Other Revenues - Miscellaneous Revenue Reduces the Company's other revenues to an agreed-upon level.	(13)	-
f Advertising Reduces advertising and marketing expenses to an agreed-upon level.	(2)	-
Total Adjustments:	(\$1,316)	\$0
Adjusted Base Revenue Requirement & Rate Base:	\$5,361	\$287,338

Q. What is the basis of the Stipulation relating to Issue (a), Cost of Capital Adjustment?

A. The Company's original filed requested cost of capital was as follows:

ORIGINALLY-FILED COST OF CAPITAL			
	Capital Structure	Debt Cost	Weighted Cost
Long Term Debt	50.00%	5.20%	2.60%
Common Equity	50.00%	9.90%	4.95%
Total	100.00%		7.55%

As filed, this adjustment would have revised the Company requested cost of capital to a capital structure comprised of 50% common stock equity and 50% long-term debt, with a return on equity (ROE) of 9.90%, and cost of debt of 5.20%. On settlement, however, the Parties have agreed to a revised cost of debt of 5.07% that reflects the most recent financings of the Company, which lowers the overall cost of debt from the 5.20% included in the original filing. The 9.40% ROE, combined with the 50% equity layer, is a negotiated rate that the Parties support as reasonable. It also reflects a continuation of the currently authorized ROE of 9.4% and the capital structure comprised of 50% common stock equity and 50% long-term debt. This combination of capital structure and capital costs produces an overall rate of return of 7.24%, as shown in the table below:

AGREED-UPON COST OF CAPITAL			
	Capital Structure	Debt Cost	Weighted Cost
Long Term Debt	50.00%	5.07%	2.54%
Common Equity	50.00%	9.40%	4.70%
Total	100.00%		7.24%

The result of this adjustment decreases the Company's requested revenue requirement by \$1,232,000. In their respective individual statements, that follow, each party will add their perspective on why they agreed to this cost of capital settlement.

Q. Please explain the basis of the Stipulation relating to Issue (b), Interest Synchronization Adjustment?

A. This adjustment is simply a flow-through adjustment for the federal and state tax impact of the cost of debt component of rate of return, and increases the Company's requested revenue requirement by \$63,000. This balance will change as other issues are resolved.

1 **Q. Please explain the basis of the Stipulation relating to Issue (c), Medical**
2 **Benefits?**

3 A. This adjustment simply includes an update to medical expenses for costs expected
4 during the rate period and additional adjustments resulting in an agreed-upon level for
5 settlement purposes. The result of this adjustment decreased the Company's requested
6 revenue requirement by \$115,000.

7 **Q. Please explain the basis of the Stipulation relating to Issue (d),**
8 **Membership & Dues Adjustment?**

9 A. This adjustment reduces the Company's membership and dues expense to an
10 agreed-upon level. The result of this adjustment decreased the Company's requested revenue
11 requirement by \$2,000.

12 **Q. Please explain the basis of the Stipulation relating to Issue (e), Other**
13 **Revenues – Miscellaneous Revenue Adjustment?**

14 A. This adjustment reduces the Company's other revenues to an agreed-upon
15 level. The result of this adjustment decreased the Company's requested revenue requirement
16 by \$13,000.

17 **Q. Please explain the basis of the Stipulation relating to Issue (f), Advertising**
18 **Adjustment?**

19 A. This adjustment reduces the Company's advertising expense to an agreed-upon
20 level. The result of this adjustment decreased the Company's requested revenue requirement
21 by \$2,000.

Third-Party Review of Interest Rate Hedging by Avista

Q. What is the agreement of the Parties relating to a Third-Party Review of Interest Rate Hedging by Avista?

A. The Parties have agreed with respect to Avista's Interest Rate Risk Management Plan ("Hedging Plan" or "Plan"), as now in effect (See, Exh AVA/202), to a Third-Party Review of Avista's Interest Rate Hedging. The terms of the agreement have been provided as Attachment A in Exhibit No. Joint Testimony/101.

Q. What is the purpose of this third-party review?

A. Avista has maintained a Hedging Plan since August of 2013. It has been the subject of periodic informal review in all jurisdictions, and has been the subject of testimony in Avista's most recent rate case¹. The Parties agreed that it was time for an independent review by a third-party of the policy, along with any recommended changes or modifications. The actual selection of the third-party and the associated RFP require the consensus of all Parties. This report will be furnished to the Commission on or before December 31, 2020 for informational purposes, and may be of use in subsequent rate proceedings.

Q. How will the costs incurred by Avista related to the retention of an Independent Third-Party review be recovered?

A. As noted in the terms of the agreement in Attachment A in Exhibit No. Joint Testimony/101, expenses associated with retaining this third-party consultant will be amortized and recovered from Avista's customers over a five (5) year period through general rates and shall not exceed [REDACTED].

¹ Docket No. UG-325, Staff/1200/Ihle, Avista/200/Thies, and Avista/202/Thies.

Statements of the Parties²

Statement of Avista

Q. Does Avista support the Partial Settlement Stipulation which resolves certain revenue requirement items and contains an agreement to an independent third-party review of Avista's Interest Rate Hedging?

A. Yes. The Partial Settlement strikes a reasonable balance between the interests of Avista's customers and the Company on certain revenue requirement items and an agreement to an Independent Third-Party review of Avista's Interest Rate Hedging. The Partial Settlement Stipulation was a compromise among differing interests and represents give-and-take. It does not, however, resolve all issues in this proceeding, the remainder of which will be addressed in Staff and intervenors testimony to be filed on July 16, 2019 and the Company's rebuttal to be filed thereafter.

For these reasons, the Partial Settlement is in the public interest and should be approved by the Commission.

Statement of CUB

Q. Please explain why CUB believes the settlement is in the public interest.

A. CUB supports this Partial Stipulation because the revenue requirement adjustments captured herein strike a reasonable balance between the interests of Avista's customers and the Company. CUB believes that a 9.4 percent ROE is appropriate for the Company and reflects current market conditions. CUB believes that it is time for a third party

² The Statements provided by each Party represent their views only as it relates to the Settlement, and should not be construed as being the views of the Parties collectively.

1 review of the Company's interest rate hedging program. CUB believes that the Partial
2 Stipulation is in the public interest and should be approved by the Commission.

3 **Statement of AWEC**

4 **Q. Please explain why AWEC believes the settlement is in the public interest.**

5 A. AWEC believes the Stipulation is in the public interest and recommends the
6 Commission approve the Stipulation because the best interests of Avista's natural gas
7 customers are served by the underlying fair compromise on ROE, certain revenue requirement
8 adjustments and the third party review of Avista's Hedging Plan. While the signing parties
9 may each hold different positions on the individual components of this Stipulation, AWEC
10 supports the Stipulation because it has decreased the original gas revenue requirement increase
11 of \$6.67 million by \$1.301 million—which results in a revenue requirement increase request
12 of \$5.376 million, before consideration of other adjustments that will be proposed by Staff,
13 CUB and AWEC in testimony. AWEC supports the Stipulation as an overall result that is a
14 fair compromise between Avista and its customers.

15 For the reasons set forth above, AWEC believes the Stipulation is in the public interest
16 and should be approved by the Commission.

17 **Statement of Staff**

18 **Q. Please explain why Staff believes the settlement is in the public interest.**

19 A. Staff believes that the Partial Stipulation is in the public interest because of the
20 fair compromise reached by the Parties on specific rate cases items including ROE, individual
21 revenue requirement adjustments, and third-party review of Avista's Hedging practices.
22 Furthermore, additional adjustments to Avista's proposed rate increase will be recommended
23 by Staff in opening testimony.

Q. Will Staff provide separate detailed Testimony in Support for this Stipulation's Cost of Capital elements and overall Rate of Return, as well as the requirement to conduct a third-party review of Avista's financial hedging program?

A. Yes. Staff will provide additional Testimony in Support on or before July 16, 2019 that will further explain and support the agreements reached in this Partial Stipulation.

Conclusion

Q. Do the Parties agree that the Stipulation provided as Exhibit No. Joint Testimony/101 is in the public interest and results in an overall fair, just and reasonable outcome?

A. Yes, the Parties do.

Q. What do the Parties recommend regarding the Stipulation?

A. We recommend that the Commission adopt the Stipulation in its entirety.

Q. Does this conclude your joint testimony?

A. Yes.