

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER REDFORD
COMMISSIONER RAPER
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: BRANDON KARPEN
DEPUTY ATTORNEY GENERAL

DATE: JUNE 4, 2015

SUBJECT : AVISTA GENERAL RATE CASE – ELECTRIC AND GAS
CASE NOS. AVU-E-15-05 AND AVU-G-15-01

On June 1, 2015, Avista Corporation filed an Application seeking authority to increase the Company's general rates for electric and natural gas service in Idaho. Avista proposes a two-year rate plan that would increase annual *electric* billed revenues by \$13.2 million (5.2%) on January 1, 2016, and by \$13.7 million (5.1%) on January 1, 2017. The plan also includes an increase in annual *natural gas* billed revenues by \$3.2 million (4.5%) on January 1, 2016, and by \$1.7 million (2.2%) on January 1, 2017.

THE APPLICATION

Avista is a public utility engaged in the generation, transmission and distribution of electricity and natural gas. Avista's service area includes eastern Washington, northern Idaho, and parts of southern and eastern Oregon. Avista's existing base rates and charges for electric and natural gas services were approved by the Commission on March 27, 2013, and took effect in October 2013. Order No. 32769.

In its Application, Avista claims its existing rates are not fair, just, and reasonable, and that it must increase them so it can earn a fair return on its investment. Avista plans to notify its customers about the proposed rate increases by distributing bill stuffers over the June 2015 billing cycle, and through news releases.

Avista maintains that it needs to increase its rates primarily to cover an increase in Net Plant Investment (including return on investment, depreciation and taxes, and offset by the

tax benefit of interest), and the December 31, 2016, expiration of an existing capacity sales agreement that will increase net power expenses. Application at 3.

Avista’s evidence in support of its requested rate increases is based on a 12-month test year ending December 31, 2014. *Id.* at 4. Avista requests an overall rate of return of 7.62%, which includes a 50% common equity ratio, a 9.9% return on equity, and a 5.34% cost of debt. Avista asserts that the proposed rate of return and capital structure reasonably balance safety and economy. *Id.* at 7. The proposed rate increases would impact customers’ as described below.

1. Electric Service

With regard to electric services, if Avista’s Application is approved, a residential customer using an average of 929 kilowatt hours (kWh) per month could expect to see a bill increase of \$5.92 per month in 2016, which includes a basic charge increase from \$5.25 to \$8.50 per month. For 2017, the same customer could expect an increase of \$6.10 per month. Avista’s proposed electric rate increase would impact customers’ electric bills by schedule as follows:

Proposed Electric Increase

Service Schedule	Proposed 2016 Billing Increase	Proposed 2017 Billing Increase
Residential Service Schedule 1	6.9%	6.7%
General Service Schedules 11 & 12	3.5%	3.5%
Large General Service Schedules 21 & 22	4.5%	4.5%
Extra Large General Service Schedule 25	4.5%	4.5%
Extra Large General Service Schedule 25P	2.6%	2.7%
Pumping Service Schedules 31 & 32	5.2%	5.1%
Street & Area Lighting Schedules 41-49	6.1%	5.9%
Overall Increase	5.2%	5.1%

See Direct Testimony of Scott L. Morris at 7.

2. Gas Service

With regard to gas services, if Avista’s Application is approved, a residential customer using an average of 61 therms per month could expect to see a bill increase of \$3.90 per month in 2016, which includes a basic charge increase from \$4.25 to \$8.00 per month. For 2017, the same customer could expect an increase of \$1.79 per month. Avista’s proposed natural gas rate increase would impact customers’ gas bills by schedule as follows:

Proposed Natural Gas Increase

Service Schedule	Proposed 2016 Billing Increase	Proposed 2017 Billing Increase
General Service Schedule 101	6.5%	2.9%
Large General Service Schedule 111 & 112	3.5%	1.3%
Interruptible Sales Service Schedules 131 & 132	5.5%	2.0%
Transportation Service Schedule 146 (excluding natural gas costs)	4.5%	5.4%
Overall Increase	5.8%	2.5%

See Direct Testimony of Scott L. Morris at 9.

3. Fixed Cost Adjustment

Besides a base rate increase, Avista's Application also proposes to implement electric and natural gas Fixed Cost Adjustment (FCA) mechanisms designed to break the link between a utility's revenues and a consumer's energy usage. Under the proposed FCA mechanism, the Company's revenues would adjust each month to reflect revenues based on number of customers, rather than kilowatt-hour and therm sales. According to Avista, the difference between revenues based on sales and revenues based on the number of customers will result in either surcharges or rebates to customers the following year.

STAFF RECOMMENDATION

Avista's proposed tariffs for 2016 specify a July 3, 2016 effective date, which Avista asks the Commission to suspend for 30 days and 5 months to ensure the Company complies with Commission Order No. 33130. In that prior Order, the Commission approved a settlement agreement in which the parties agreed that Avista may file a general rate case as of May 31, 2015, that requests "an effective date earlier than January 1, 2016," but the "final approved new rates will not go into effect prior to January 1, 2016." Staff thus recommends that the Commission issue a Notice of Application that suspends the July 3, 2015 effective date, as proposed by Avista. See *Idaho Code* § 61-622(4). Staff further recommends that the Commission set a 14-day intervention deadline, and direct Staff to informally confer with the parties about scheduling. Finally, Staff recommends that the Commission direct Staff to convene an informal prehearing conference at the Commission's offices for the parties to discuss scheduling of discovery, testimony, technical hearings, and other matters that may arise.

COMMISSION DECISION

Does the Commission wish to issue a Notice of Application that suspends Avista's proposed July 3, 2015 effective date to January 1, 2016, establishes a 14-day intervention deadline, and directs Staff to informally confer with the parties about scheduling?

Brandon Karpen
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Deputy Attorney General

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