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Case No. AVU-E-15-05, AVU-G-15-01, Order No. 33324
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Commission begins six-month process to examine Avista rate increase request

BOISE (June 19, 2015) – Parties seeking to intervene in Avista Utilities' electric and natural gas base rate case for the purpose of presenting evidence and cross-examining witnesses must file a petition with the Idaho Public Utilities Commission no later than June 29. Deadlines for public comment and dates for any public workshops and hearings will be announced later.

The commission's staff of auditors, engineers, rate analysts and attorneys have begun an up to six-month process of examining Avista's request for a two-year rate plan that would increase electric rates by 5.2% in 2016 and 5.1% in 2017 and natural gas rates by 4.5% in 2016 and 2.2% in 2017. The proposed increases in the gas rate are anticipated to be offset by estimated 10 percent reduction in natural gas rates through the annual Purchased Gas Cost Adjustment effective Nov. 1.

"We have already received requests from customers asking the commission to deny Avista's application, but state statute requires that the commissioners first consider the evidence before they decide how much, if any, increase the company should be allowed," said commission spokesman Gene Fadness. "We are in the process of gathering that evidence now."

Regulated utilities are entitled by state law to recover prudently incurred expenses in exchange for their commitment to reliably serve all customers within their assigned territories. "The burden will be on Avista to demonstrate that the expenses it seeks to recover from customers were necessary to serve customers and that they were prudently incurred," Fadness said.

Avista claims it has or will invest $1.08 billion in capital improvements projects since the company's last general rate case three years ago. That case, filed in 2012, was a two-year plan that increased rates in 2013 and 2014 and a settlement that extended it through 2015 with no increase.

If the commission were to grant Avista's request in its entirety, the bill for a residential customer using the system average of 929 kilowatt-hours per month would increase by about $5.92 per month in 2016 and $6.10 per month in 2017. Part of that $5.92 increase is a proposed increase in the monthly customer service charge from $5.25 per month to $8.50. The bill for a natural gas customer using the company average of 61 therms per month would increase by $3.90 per month in 2016 and $1.79 per month in 2017. The proposed increase in the natural gas customer service charge is to $8 per month, up from the current $4.25.

Avista's proposal would increase annual electric billed revenue by $13.2 million in 2016 and another $13.7 million in 2017. Natural gas revenues would increase by $3.2 million in 2016 and $1.2 million in 2017.

To mitigate the size of the proposed electric increase, Avista wants to extend another two years a $2.8 million refund customers are now receiving, reducing overall rates by 1.1 percent. That refund, originally money made available to Avista from the Bonneville Power Administration as part of a settlement regarding BPA's prior use of Avista's transmission system, is due to expire at the end of this year. Avista proposes to replace that with another rebate, resulting from a settlement of the 2012 rate case under which Avista agreed to share with customers one-half of earnings the company made in excess of a 9.8% Return on Equity. Avista further proposes to apply $200,000 of gas earnings sharing to help offset a $1.2 million rebate that expires on Jan. 1, 2016. However, that $200,000 sharing will expire in 2017.

Avista seeks a 9.9 percent Return on Equity and an overall Rate of Return of 7.62 percent.

The major cost drivers in Avista's case include $67.3 million for rehabilitation to the Nine Mile hydroelectric facility on the Spokane River, expected to be completed in 2017, and a $107 million customer information system. The customer information system increases the range of self-service options for customers, enhances mobile dispatch for gas and electric servicemen, houses the company's GIS for it electric and gas facility maps, provides for automated meter reading, includes construction design and outage management tools, and allows customers to participate in Smart Grid programs.

Another factor driving up rates, according to Avista, is the expiration of a power sales agreement with Portland General Electric on Dec. 31, 2016. That will result in higher-priced replacement power for the 150 megawatts provided by the agreement.

Avista states its number of customers is growing, requiring increased investment in fixed costs to provide the infrastructure to serve those customers. However, energy use per customer is declining, resulting in less revenue. The 1 percent annual sales growth rate is not keeping pace with Avista's investment in plant and operating expenses, the company claims. The utility said it is replacing equipment from the 1950s and 60s, at a replacement cost substantially higher than the original cost of installation.

To reduce expense, Avista claims it has imposed hiring restrictions, offered a voluntary severance incentive plans to reduce employee numbers and eliminated its defined benefit pension plan for new hires, replacing it with a contribution to a 401K plan established by the employees. The company also made changes to its post-retirement medical plans for non-union employees.

The proposed increase in the customer service charge, which covers fixed costs that stay the same regardless of energy use, may benefit lower income customers who, on average, use more electricity than customers in other classes, Avista claims. By raising the fixed charge from $5.25 to $8.50, there is less of an increase to the cents-per-kilowatt hour energy consumption charge, the company said. The proposed $8.50 is still less than the $17.82 it costs to serve each customer, according to Avista's testimony.

The company is also proposing an annual adjustment to rates that will allow it to recover fixed costs of serving customers even when electric or gas consumption declines below the fixed cost to serve each customer as determined in the most recent case. The annual adjustment, called a Fixed Cost Adjustment, would reduce the disincentive for Avista to promote energy efficiency by ensuring fixed cost recovery regardless of how much customers conserve.

During those years when energy sales are above the allowed fixed cost per customer, such as during a colder than normal winter, customers would be credited the amount of revenue collected above the allowed level. During years when sales were below allowed fixed cost, customers would receive a one-year surcharge. The credit or surcharge would be effective every Nov. 1.

"The revenue provided to Avista through an FCA would not represent additional revenue to the company over and above what is needed to recover its costs; it represents restoration of revenues that the commission has already determined should be provided the utility from the last rate case, on a per customer basis," said Avista manager Patrick Ehrbar in testimony filed at the commission.

Copies of Avista's application and its supporting testimony and exhibits are available on the commission Website at www.puc.idaho.gov. Select "Open Cases" under either the "Electric" or "Natural Gas" headings and select either Case No. AVU-E-15-05 or AVU-G-15-01.

As the case progresses testimony from other parties followed by rebuttal testimony will be added to the case file. Customer comments are also included. Any customer workshops or hearings will be held later in the fall.

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