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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION	)	CASE NO. AVU-E-04-01
OF AVISTA CORPORATION FOR THE	)	CASE NO. AVU-G-04-01
AUTHORITY TO INCREASE ITS RATES	)	
AND CHARGES FOR ELECTRIC AND	)	
NATURAL GAS SERVICE TO ELECTRIC AND	)	DIRECT TESTIMONY
NATURAL GAS CUSTOMERS IN THE STATE	)	OF
OF IDAHO	)	BRIAN J. HIRSCHKORN
	)	

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

I. INTRODUCTION

Q. Please state your name, business address and present position with Avista Corporation?

A. My name is Brian J. Hirschkorn and my business address is 1411 East Mission Avenue, Spokane, Washington. I am presently assigned to the Rates Department as Manager of Pricing.

Q. Would you briefly describe your duties?

A. My primary areas of responsibility include electric and gas rate design, customer usage and revenue analysis, and tariff administration.

Q. Would you briefly describe your educational background?

A. I graduated from Washington State University in 1978 with Bachelor degrees in Business Administration and Accounting.

Q. Have you previously testified before the Commission?

A. Yes. I have testified before this Commission in several prior rate proceedings as a revenue and rate design witness.

Q. What is the scope of your testimony in this proceeding?

A. My testimony in this proceeding will cover the spread of the proposed annual net electric revenue increase of $18,871,000, or 11.0%, among the Company's electric general service schedules. The net increase consists of a proposed general increase of $35,222,000 as well as the proposed reduction in the present Power Cost Adjustment (PCA) surcharge $16,351,000. I will also provide information associated with electric service to Potlatch's Lewiston Plant, and the basis for the proposed rates for service to the Plant. With regard to natural gas service, I will describe the spread of the proposed annual revenue increase of $4,754,000, or 9.2%, among the Company's natural gas service schedules. My testimony will also describe the design of the proposed rates within the Company's electric and natural gas service schedules. I am also responsible for the revenue normalization adjustments for both electric and natural gas, which I will briefly discuss.

Q. Are you sponsoring any exhibits to be introduced in this proceeding?

A. Yes. I am sponsoring Exhibit Nos. 18, 19, and 20, related to the proposed electric increase, and Exhibit Nos. 21, 22, and 23, related to the proposed natural gas increase. I will discuss these Exhibits in more detail later in my testimony.

II. EXECUTIVE SUMMARY

Proposed Electric Increase

Q.What is the net proposed electric revenue increase in this Case, including the proposed PCA surcharge reduction, and how is the Company proposing to spread the increase by Schedule?

A.The net proposed electric increase is $18.9 million, or 11.0% over present revenue/rates in effect, consisting of the proposed general increase of $35.2 million and a proposed PCA surcharge decrease of $16.3 million. The net proposed increase by rate schedule is as follows:

Residential Service Schedule 1	13.5%
General Service Schedules 11 & 12	8.7%
Large General Service Schedules 21 & 22	10.1%
Extra Large General Service Schedule 25	15.0%
Potlatch (Lewiston) Schedule 25	7.1%
Pumping Service Schedules 31 & 32	12.1%
Street & Area Lighting Schedules 41-49	12.8%

This information is shown in detail on Page 2 of Exhibit No. 20.

Q. What is the basis for the proposed increases by service schedule?

A. The Company used the results of the cost of service study, as sponsored by Company Witness Knox as a guide in spreading the proposed general increase ($35.2 million) by service schedule. The spread of the proposed general revenue increase, as shown on Page 1 of Exhibit No. 20, results in moving the relative rates of return for the individual rate schedules one half of the way toward unity (1.00). The rates of return for the individual schedules are shown on Page 3 of Exhibit No. 20.

The proposed PCA surcharge is applied on a uniform percentage basis to each service schedule and applied to the energy charge(s) under each schedule. The proposed level of the surcharge is based on the recovery of the remaining estimated balance at October 1, 2004 ($23 million) over the two-year period October 2004 – September 2006. The proposed level of the PCA surcharge less the present surcharge level results in an annual revenue reduction of $16.3 million.

Q. What is the proposed increase for a residential electric customer with average consumption?

A. The proposed increase for a residential customer using an average of 941 kwhs per month is $7.85 per month, or a 13.9% increase in their electric bill. As part of that increase, the Company is proposing that the basic / customer charge be increased from $4.00 to $5.00 per month. The present bill for 941 kwhs is $56.52 compared to the proposed level of $64.37.

Q. Is the Company proposing any significant changes to the design of the rates <u>within</u> any of its electric service schedules?

A. Yes. The Company is proposing to add an energy usage rate block to each of its electric general service schedules (Schedules 11, 21 and 25), whereby the larger customers served under those schedules would pay a lower incremental energy rate for usage beyond a certain level. These proposals are reasonable and appropriate from a cost of service basis. The result is that the proposed increase for customers within a Schedule will vary depending on the customer's usage. This information is shown on pages 8 and 9 in Exhibit No. 20.

Q. Where in your Exhibits do you show the proposed changes in rates within the electric service schedules?

A. This information is shown in detail on page 6 of Exhibit No. 20.

Q. On January 15, 2004, in Order No. 29418, this Commission approved a new Power Purchase and Sale Agreement (Agreement) between Avista and Potlatch. The Agreement states either Party can propose service rates for Potlatch's Lewiston Plant

that are different than Schedule 25. Is the Company proposing that Potlatch continue to be served under Schedule 25 (rates)?

A. Yes. The Company is proposing that Potlatch continue to be served under Schedule 25, however, the Company is proposing changes to the present Schedule 25 rate structure that will result in Potlatch paying an average rate per kwh that is lower than the average rate(s) paid by other Schedule 25 customers. The estimated incremental revenue requirement resulting from the Agreement is $4.1 million which is included in general revenue increase proposed in this filing.

<u>**Proposed Natural Gas Increase**</u>

Q. How is the Company proposing to spread the overall natural gas increase of $4,754,000, or 9.2% by service schedule?

A. The Company is proposing the following revenue/rate changes by rate schedule:

General Service Schedule 101	10.0%
Large General Service Schedule 111/112	6.6%
High Annual Load Factor – Lg. General Service Schedule 121/122	3.8%
Interruptible Sales Service Schedule 131/132	3.4%
Transportation Service Schedule 146	18.2%

The proposed increase for Transportation Service Schedule 146 excludes gas costs; including gas costs would result in an increase of approximately 3.2%. This information is also shown on Page 1 of Exhibit No. 23. The proposed increase by rate schedule results in a reasonable movement of the rates toward the cost of providing service (approximately one-half way toward unity), as shown on page 2 of Exhibit No. 23.

Q. What is the proposed monthly increase for a residential natural gas customer with average usage?

A. The increase for a residential customer using an average of 73 therms of gas per month would be $5.75 per month, or 9.6%, which includes a proposed increase in the monthly basic / customer charge from $3.28 to $5.00. A bill for 73 therms per month would increase from the present level of $60.01 to a proposed level of $65.76.

III. PROPOSED ELECTRIC RATE INCREASE

Revenue Normalization

Q. Would you please describe the electric "revenue normalization adjustment" which you have referred to?

A. The electric revenue normalization adjustment represents the difference between the company's actual recorded retail revenues during the test period and retail revenues on a normalized (pro forma) basis. The total revenue normalization adjustment increases Idaho revenues by $15,947,000 and net operating income by $10,195,000 as shown in column (j) on page 5 of Exhibit No. 14. Nearly all of the adjustment results from restating revenue from service to Potlatch's Lewiston plant (Plant) as a result of the 2003 Power Purchase and Sales Agreement (Agreement) between Avista and Potlatch, which became effective July 1, 2003. Under the Agreement, Avista purchases approximately 60 average megawatts of Potlatch's generation at the Plant and serves Potlatch's entire load requirement of approximately 100 megawatts under Rate Schedule 25. During 2002, Potlatch used its generation to serve a major portion of its load requirements at the Plant, and Avista served only about 40 average megawatts. As a result, the revenue adjustment associated with service to Potlatch includes additional retail revenue based on the sale of an additional 60 average megawatts at Schedule 25 rates.

The remaining portion of the revenue normalization adjustment consists of three components: 1) repricing customer usage (adjusted for known and measurable changes) at present base tariff rates in effect, 2) adjusting customer loads and revenue to a calendar-year basis (unbilled revenue adjustment), and 3) weather normalizing customer usage and revenue. The net amount of these three components is a decrease in 2002 revenue of $746,000.

Q. Is the calculation of the revenue adjustment associated with the three components listed above the same as was used in the Company's last general case?

A. Yes, it is.

General Information

Q. Could you briefly describe any significant changes in customer electric consumption (energy usage) since the Company's last general case?

A. Yes. Since the Company's last general rate case, usage per customer appears to have declined significantly for all customer classes. From 1997 (last general case test year) to 2002, residential use per customer has declined from 1,037 kwhs per month to 941 kwhs, or about 9%. Use per customer has declined about 8% for commercial and industrial customers during that time, and about 14% for the Company's largest customers served under Schedule 25.

Q. Why do you think average customer usage has declined so significantly since 1997?

A. I believe there are several reasons for the significant decrease in customer usage. The first is the "energy crisis" which occurred during this period, where rising market energy prices, blackouts, and energy company bankruptcies were all making daily headlines. The second factor is the actual increase customers have seen in their energy bills during the past several years. While the increase in the Company's electric rates has been only a fraction of the increase in natural gas rates/prices during that time, customers appear to be responding by decreasing <u>all</u> energy usage. Lastly, both the national and local economy went through a downturn during this period, resulting in a loss of jobs.

Q. Would you please explain what is contained in Exhibit No. 18?

A. Exhibit No. 18 is a copy of the proposed changes (strikeouts and underlines) to the Company's electric general service tariffs as part of this filing.

Q. Turning now to Exhibit No. 19, would you please state what is contained in that Exhibit?

A. Exhibit No. 19 contains the proposed tariff sheets that are being filed with the Commission as a part of our revised tariff, IPUC No. 28. Included in Exhibit No. 19 are the proposed general service tariffs and the proposed Schedule 66 – Temporary Power Cost Adjustment, to become effective at the estimated conclusion of this case (September 2004). The proposed change to Schedule 66 reflects the proposed reduction in the present PCA surcharge.

Q. Could you please explain what is contained in Exhibit No. 20?

A. Exhibit No. 20 contains information regarding the proposed rate spread and rate design of the proposed revenue components in this case. Page 1 shows the proposed general revenue and percentage increase by rate schedule compared to the present revenue under base tariff rates (excluding the present PCA surcharge and other rate adjustments). Page 2 shows the net proposed revenue and percentage changes for the combined effect of the general increase and the PCA decrease, compared to revenue under present <u>billing</u> rates including the present rate adjustments for the PCA surcharge and other rate adjustments. Page 3 shows the rates of return by rate schedule before and after application of the proposed general increase, based on the cost of service information presented by Company Witness Knox. Page 6 shows the present billing rates under each of the rate schedules, the proposed changes to the rates within the schedules, and the proposed rates after application of the changes. These pages, as well as the other pages contained in Exhibit No. 20, will be referred to later in my testimony.

Q. Why do you compare the proposed revenue increase(s) to both present revenue under base tariff rates (Page 1) and revenue under present billing rates (Page 2)?

A. Typically proposed rate spread and rate design information is shown as compared to revenue and rates under base tariff rates, which exclude any temporary rate adjustments, such as the Company's present PCA surcharge. However, the percentage change(s) that customers will see on their <u>bills</u> will be based on present rates <u>including</u> the present PCA surcharge and other rate adjustments. Because of the magnitude of the existing PCA surcharge and the proposed reduction in the level of the surcharge, the Company believes that it is important to provide the information as it will ultimately affect customer bills, as shown on Page 2 of Exhibit No. 20.

Q. Would you please describe the Company's present rate schedules and the types of electric service offered under each?

A. Yes. The Company presently provides electric service under Residential Service Schedule 1, General Service Schedules 11 and 12, Large General Service Schedules 21 and 22, Extra Large General Service Schedule 25, and Pumping Service Schedules 31 and 32. Additionally, the Company provides Street Lighting Service under Schedules 41-46, and Area Lighting Service under Schedules 47, 48 and 49. Schedules 12, 22, 32, and 48 exist for residential and farm service customers who qualify for the "Residential Exchange" program operated by Bonneville. The rates for these schedules are identical to the rates for Schedules 11, 21, 31, and 47, respectively, except for the present Residential Exchange rate credit of 0.252 cents per kwh, as set forth under Schedule 59 of the Company's tariff. The following table shows the type of customer and the approximate number of customers served in Idaho (as of December 2003) under each of the schedules (except street and area lighting):

Schedule	Type of Customer	No. of Customers
Residential Sch. 1	Residential	89,900
General Sch. 11&12	Small Commercial / less than 50 kw	16,500
Lge. General Sch. 21&22	Med. - Lge. Comm. & Industrial / over 50 kw	1,800
Ex. Lge. General Sch. 25	Lge. Comm. & Industrial / over 2,500 kva	15
Pumping Sch. 31&32	Water & effluent Pumping	1,100

General Rate Increase – Proposed Rate Spread

Q. How does the Company propose to spread the total general revenue increase request of $35,222,000 among its various rate schedules?

A. The Company is proposing the following general revenue / rate increase(s) by service schedule:

Proposed General Increase by Rate Schedule	
Residential Service Schedule 1	26.5%
General Service Schedules 11 & 12	22.0%
Large General Service Schedules 21 & 22	23.8%
Extra Large General Service Schedule 25	27.4%
Potlatch (Lewiston) Schedule 25	19.7%
Pumping Service Schedules 31 & 32	23.4%
Street & Area Lighting Schedules 41-49	26.8%

This information is also shown on Page 1 of Exhibit No. 20. The proposed revenue increases shown in the table above compare to an overall general revenue increase of 24.1% over base tariff revenue (excluding PCA surcharge and other rate adjustments), if applied uniformly to each of the schedules.

Q. Why is it necessary to examine the rate spread associated with the proposed general increase?

A. It is necessary to examine the spread of the proposed general increase separately from the proposed PCA reduction as the general increase represents the proposed change in base tariff rates, and revenues and costs associated with the PCA are excluded from the cost of service study.

Q. What rationale did the Company use in this proposed spread of the overall general revenue increase to the various service schedules?

A. The Company utilized the results of the cost of service study, as sponsored by Company Witness Knox, as a guide in developing the proposed rate spread. The primary goal of the proposed rate spread is to move the rates of return of the individual service schedules closer to the overall rate of return (unity) so that all customers contribute fairly to the cost of providing service. The table below shows the relative rates of return by schedule before and after the proposed increases are applied. The relative rate of return is determined by dividing the rate of return for each schedule by the overall rate of return for the Company's Idaho electric operations. This information is also shown on Page 3 of Exhibit No. 20.

Relative Rates of Return by Service Schedule

	Before Increase	After Increase
Residential Service Schedule 1	0.42	0.71
General Service Schedules 11 & 12	2.06	1.53
Large General Service Schedules 21 & 22	1.73	1.36
Extra Large General Service Schedule 25	0.25	0.63
Potlatch (Lewiston) Schedule 25	1.11	1.05
Pumping Service Schedules 31 & 32	1.54	1.27
Street & Area Lighting Schedules 41-49	0.97	0.92

Application of the proposed revenue increase by schedule was based on moving the relative rate of return approximately one-half way toward unity (1.00) after application of the increase, with the exception of street and area light schedules.

Q. Why is the Company proposing a spread of the proposed general rate increase that results in the relative rates of return moving one-half toward unity?

A. Given the present disparity between the relative rates of return by rate schedule, the Company believes that reducing that disparity by one-half in this proceeding is a reasonable balance between cost of service and other considerations. Further, implementation of the proposed reduction in the present PCA surcharge will reduce the amount of the general increase by 46%, from $35.2 million to $18.9 million. Therefore, the proposed PCA surcharge reduction provides an opportunity to move base tariff rates closer to the cost of providing service on a relative basis.

Q. You mentioned earlier that the proposed increase in base tariff rates results in a movement in the relative rate of return one-half of the way toward unity, except for the proposed increase for street and area light schedules. Why don't you propose an increase for these schedules that results in a similar movement toward unity?

A. Even though the present relative rate of return for street and area light schedules is 97% of unity (line 7, column (d) on page 3), a base rate increase of over 30% (compared to the average of 24%) would need to be implemented just to maintain the present 97% of unity. This is because street and area light schedules have a higher percentage of rate base per kwh compared to other schedules, and therefore, require a disproportionately higher revenue increase just to maintain the same relative rate of return. The higher level of rate base for street and area lights results from an allocation of general system rate base and the direct assignment of street lights and poles. Rather than propose an increase for street and area light schedules substantially higher than that proposed for other schedules, the Company is proposing a general increase of 26.8%, which is similar to the higher proposed increases by schedule. The proposed general increase would result in a relative rate of return of 0.92, or 92% of unity, which the Company believes is a reasonable level.

Q. What is the net proposed increase by service schedule including both the proposed general increase and the reduction in the present PCA surcharge?

A. The following table shows the proposed net effective increase for each service schedule:

Residential Service Schedule 1	13.5%
General Service Schedules 11 & 12	8.7%
Large General Service Schedules 21 & 22	10.1%
Extra Large General Service Schedule 25	15.0%
Potlatch (Lewiston) Schedule 25	7.1%
Pumping Service Schedules 31 & 32	12.1%
Street & Area Lighting Schedules 41-49	12.8%

These net increases are based on present customer billing rates, including the present PCA surcharge and other rate adjustments. In other words, they are the average percentage increase in customer bills under each Schedule. This information is also shown in more detail on Page 2 of Exhibit No. 20.

Proposed PCA Surcharge Reduction

Q. Please describe the proposed reduction to the present PCA surcharge and how the Company proposes to spread the proposed PCA surcharge level among its service schedules.

A. The present PCA surcharge (Schedule 66) represents a 19.04% increase over base tariff rates (2002 pro forma revenue), applied on a uniform percentage basis to each service schedule. Within each schedule, the surcharge is applied only to the energy charge(s), with the surcharge being the same rate for all energy usage within the schedule, except for Residential Schedule 1. For Street and Area Light rates (Schedules 47-49), the surcharge is a uniform percentage increase applied to base tariff rates. Page 4 of Exhibit No. 20 shows the derivation of the present 19.04% surcharge level.

The proposed PCA surcharge level is based on recovery of the estimated deferral balance at the end of September 2004 over the two-year period October 2004 – September 2006. September 2004 was used as the estimated date that the rates resulting from this Case would go into effect. The estimated deferral balance in September 2004 is approximately \$23 million. By dividing the estimated balance by two (years), the Company would need to recover \$11.5 million each year, resulting in a 7.86% proposed PCA surcharge level compared to present base tariff revenue/rates. As shown near the bottom of page 4 of Exhibit No. 20, the proposed PCA surcharge would result in an 11.18% reduction in the present surcharge level compared to revenue from base tariff rates.

The overall proposed PCA surcharge level of 7.86% has been spread to the individual rate schedules on the same basis as the present surcharge, i.e., on a uniform percentage basis to each rate schedule and then applied as a single rate for all energy usage within the schedule (except Schedule 1 which presently has a different PCA rate for each block), and as a uniform percentage to all street and area light rates. The calculation of the proposed PCA surcharge rates for each schedule is shown on Page 5 of Exhibit No. 20.

Q. How does the Company propose that the final PCA surcharge rates as a result of this Case be determined?

A. If the Commission accepts the Company's proposed methodology, the (approved) annual PCA revenue to be recovered should be divided by the total approved level of base tariff revenue, resulting in the new overall PCA surcharge percentage to apply to base tariff rates / revenue. The overall percentage would then be applied to the approved base tariff revenue by rate schedule, and the resulting surcharge revenue (by schedule) divided by the total kwhs within each schedule to derive the new surcharge rate per kwh by schedule.

Q. Is the Company proposing that the PCA surcharge rate for Potlatch be different than the rate for other Schedule 25 customers?

A. Yes. Even though the Company is proposing that Potlatch continue to be served under Schedule 25, as discussed later in my testimony, the Company is proposing a slightly lower PCA surcharge rate for Potlatch, as shown on Page 5. This lower rate is based on Potlatch's present average rate for service under Schedule 25 (3.80 cents/kwh) being less than the average rate for other customers under the Schedule (4.07 cents/kwh).

Proposed Increase by Schedule – Proposed Rate Design

Q. Where in your Exhibits do you show a comparison of the present and proposed rates within each of the Company's electric service schedules?

A. Page 6 of Exhibit No. 20 shows a comparison of the present and proposed rates within each of the schedules, which I will describe below. Column (a) shows the billing components under each of the Schedules, column (b) shows the base tariff rates within each of the schedules, column (c) shows the present PCA surcharge and other rate adjustments, and column (d) shows the present billing rates. Column (e) shows the proposed general rate increase to the rate components within each of the schedules, column (f) shows the proposed PCA surcharge decrease, column (g) shows the net proposed increase (decrease) to the rates within each schedule, and column (h) shows the proposed billing rates within each schedule. Column (i) shows the proposed base tariff rate, which is the total of columns (b) and (e).

Q. Is the Company proposing changes to the existing rate structures within any of its rate schedules?

A. Yes. The present rate structures for general service Schedules 11, 21 and 25 all have a single rate for all energy usage for customers served under these schedules. The Company is proposing to add an additional energy rate block to each of these schedules. I will describe these proposed changes, as well as the rationale behind them, later in my testimony.

Q. Turning to Residential Service Schedule 1, could you please describe the present rate structure under this Schedule?

A. Yes. Residential Schedule 1 has a present customer / basic charge of $4.00 per month, and two energy rate blocks for monthly usage below and above 600 kwhs. The present base tariff rate for the first 600 kwhs per month is 4.555 cents per kwh and 5.303 cents per kwh for all usage over 600 kwhs.

Q. How does the Company propose to spread the proposed general revenue increase of $13.9 million to Schedule 1?

A. The company proposes to increase the monthly customer charge from $4.00 to $5.00, with the remaining revenue requirement recovered through a 1.303 cents per kwh increase applied to all energy usage (both rate blocks) under the Schedule, as shown in column (e) on page 6.

Q. Why is the Company proposing an increase of $1.00 per month in the customer charge?

A. The monthly customer charge should, at a minimum, recover the direct fixed costs associated with providing service to customers. These costs include the average cost for a service line and meter, and the monthly cost associated with meter reading and billing. Page 7 of Exhibit No. 20 shows the monthly cost associated with these items to be $5.40 per month at the proposed rate of return for the Schedule (7.03%). While a case can certainly be made for the recovery of other fixed costs through the customer charge, such as customer service and A&G costs, the Company believes that the charge should at least recover the minimum average cost associated with providing this basic level of service.

Q. What is the Company's present basic charge for residential customers served in Washington?

A. $5.00 per month.

Q. What is the average monthly electric usage for a residential customer, and what is the affect of the proposed increase on a customer's bill?

A. The average monthly usage for a residential customer is 941 kwhs. Based on the net proposed increases to the rates under the Schedule, including the PCA surcharge decrease, the average monthly increase would be $7.85, or 13.9%. The present monthly bill for 941 kwhs of usage is $56.52 and the proposed monthly bill would be $64.37.

Q. Turning to General Service Schedule 11 (and 12), you previously stated that the Company is proposing to add an additional energy rate block to the Schedule. Could you please describe the present rate structure and rates under the Schedule, as well as the Company's proposal to add an additional rate block?

A. Yes. The present rate structure under the Schedule includes a monthly customer charge of $6.00, a single energy rate of 6.564 cents per kwh for all usage under the Schedule, and a demand charge of $3.50 per kw for all demand in excess of 20 kw per month. There is no charge for the first 20 kw of demand.

The additional energy usage block would provide a lower energy rate for usage in excess of 3,650 kwhs per month than for usage below that amount. The present rates under the Schedule contain a single energy charge for all kwh usage and a demand charge for monthly peak demand in excess of 20 kw. The present rates result in a higher average kwh charge for customers in excess of 20 kw than for customers below 20 kw, regardless of their load factor. The proposed rate design under the Schedule would be more reasonable when compared to the cost of providing service, as well the rates under the Company's other general service schedules 21 and 25. Generally, larger customers cost less to serve than smaller customers on a per kwh basis and customers with higher load factors cost less to serve than customers with poor load factors. The present rates under Schedules 21 and 25 have a monthly minimum charge that provides for a slightly lower average kwh rate for a larger-use customer as compared with a smaller-use customer with the same load factor. The present rates under Schedule 11 actually result in a higher average kwh charge to larger-use customers than smaller-use customers with the same load factor, as well as a higher rate per kwh for a customer whose peak demand exceeds 20 kw than the rate for a customer whose demand is less than 20 kw, regardless of their load factors.

Page 8 of Exhibit No. 20 shows the average rate per kwh to several customers with various load factors and energy and demand levels. Column (e) shows the average rate per kwh under present rates and column (g) shows the average rate under the proposed rates, with the addition of the rate block for usage in excess of 3,650 kwhs. Lines 1-3 show three customers with different usage levels resulting in a 25% load factor. Lines 4-6 show three customers with different usage levels resulting in a 50% load factor. As shown in column (e), a higher-use customer always pays a higher average rate than a smaller-use customer with a similar load factor, and a customer with a peak demand in excess of 20 kw always pays a higher rate than a customer with 20 kw or less, regardless of load factor. As shown in column (g), the proposed rates will result in approximately the same average rate per kwh as usage increases, given similar load factors. The proposed rates will also provide an incentive for most customers under the Schedule to improve their load factor. The addition of the proposed energy rate block under Schedule 11 is a reasonable way to provide rates that are more consistent with the cost of providing service and the rates under the Company's other general service schedules.

Q. How is the Company proposing to apply the proposed general revenue increase of $3.56 million to Schedule 11?

A. The Company is proposing that no increase be applied to the present customer charge or the demand charge (over 20 kw); the increase would be applied only to the energy charge(s). As shown in column (e) on Page 6, the proposed increase for usage below 3,650 kwhs per month is 1.798 cents/kwh and an increase of 0.040 cents/kwh for usage above 3,650 kwhs per month.

Q. You stated earlier that the Company is also proposing to add an energy rate block under both Large General Service Schedule 21 and Extra Large General Service Schedule 25. Could you explain these proposed changes and the rationale behind them?

A. Yes. The Company is proposing to add an energy rate block to Schedule 21 for monthly usage in excess of 250,000 kwhs/month and a rate block to Schedule 25 for usage in excess of 500,000 kwhs/month. Both schedules will have a lower incremental energy rate for usage above these levels. The rate for usage above 250,000 kwhs under Schedule 21 is proposed to be the same as the Schedule 25 rate for usage below 500,000 kwhs.

Approximately 1,800 customers take service under Schedule 21. Customers served under the Schedule can have a monthly demand anywhere from 50 kw up to 2,500 kw, which is the minimum level required for service under Schedule 25. Obviously, there is a wide range of customers served under Schedule 21, ranging from a small retail establishment to a large manufacturing plant. Generally, larger use customers under the Schedule are less costly to serve than smaller use customers on a cost per kwh basis, as some fixed costs are spread over a larger base of usage. Therefore, a lower incremental / average rate for service to larger use customers under a Schedule generally is supportable on a cost of service basis, which is true for customers served under Schedule 21.

Additionally, the difference in the present rates under Schedules 21 and 25 are substantial. There are a number of large customers served under Schedule 21 that are somewhat similar in size and usage to Schedule 25 customers. In fact, several of these customers have a higher load factor than many customers served under Schedule 25. However, they pay an average energy rate under Schedule 21 that is presently up to 50% higher than what they would pay under Schedule 25. As shown on page 3 of Exhibit No. 20, the cost of service results show that, in total, the rates for Schedule 21 exceed the cost of service and the rates for Schedule 25 are less than the cost of service. Therefore, the rates paid by large Schedule 21 customers are well above the cost of service and the rates paid by smaller Schedule 25 customers are well below the cost of service.

Q. Can large customers served under Schedule 21 take service under Schedule 25? If so, what is the effect of such a change on the customer and the Company?

A. Customers can switch from service under Schedule 21 to Schedule 25 if they meet the minimum peak demand requirement of a 2,500 kva under Schedule 25. Because of the present rate differential between the two Schedules, a customer switching from Schedule

21 to 25 can see a lower annual energy bill well in excess of $100,000, which represents a revenue/margin loss to the Company until it is eventually spread among other customers as a result of a general rate change.

Q. Have any customers switched from Schedule 21 to 25 recently?

A. Yes. Two of the fifteen customers presently served under Schedule 25 switched from Schedule 21 in 2003. Under present rates, both customers will see an annual energy bill that is about 27% less under Schedule 25 than under Schedule 21, or about $180,000 per year (each). A portion of this savings is due to the differential in the present PCA surcharge rates between the Schedules. Under the proposed rates, the present differential of $180,000 is approximately cut in half.

Q. How many customers are served under Schedule 21 whose monthly usage exceeds the proposed energy block of 250,000 kwhs?

A. There are approximately 40 customers (out of 1,800), or 2% of customers served under the Schedule, whose monthly usage exceeds 250,000 kwhs at some time during the year. Approximately 15 of these 40 customers average more than 250,000 kwhs per month. These fifteen customers include industrial/manufacturing companies, hospitals, large retail stores, a college campus, and a municipal account. Six of these customers average more than 500,000 kwhs per month.

Q. Have you examined how the proposed rates under Schedule 21 would affect the bills of customers served under the Schedule at various usage levels?

A. Yes. Page 9 of Exhibit No. 20 shows the estimated change in customers' bills under the Schedule at various usage levels, assuming they have a 50% load factor. As shown in column (f), about 98% of the customers under the Schedule would see about a 12.5% increase under the proposed rates (including the PCA decrease). About 1% of the customers (who use more than 250,000 but less than 500,000 kwhs per month) would see an increase between 6% and 12%, and about 6 customers would see an increase between 4% and 6% based on their average usage in excess of 500,000 kwhs per month. Again, the purpose for the additional rate blocks in Schedules 21 and 25 is to address the differences in the cost of service for customers served within the Schedules, as well as reduce the level of rate disparity for similar size customers served under the Schedules.

Q. Could you please describe all of the proposed (general) rate changes under Schedules 21 and 25?

A. As previously stated, the Company is proposing that the base tariff rate(s) be the same for usage over 250,000 kwhs under Schedule 21 and for usage under 500,000 kwhs under Schedule 25. This proposed rate is 4.393 cents per kwh, as shown in column (i) on page 6. As shown in column (e), the proposed base rate increase for the first 250,000 kwhs used per month under Schedule 21 is 1.254 cents per kwh, and the increase for kwh usage over 250,000 per month is 0.497 cents per kwh. The Company is also proposing that the present minimum demand charge be increased by $25 per month, from $225.00 to $250.00, and the demand charge for kw over 50 per month be increased by $0.25 per kw, from $2.75 to $3.00. These proposed changes result in the total proposed general revenue increase of $8.3 million to Schedule 21, as shown on line 3, page 1, of Exhibit No. 20.

Regarding Schedule 25, as shown in column (e) on Page 6, the proposed base rate increase for the first 500,000 kwhs used per month under Schedule 25 is 1.519 cents per kwh, and the increase for kwh usage over 500,000 per month is 0.546 cents per kwh. The Company is also proposing that the present minimum demand charge be increased by $1,500 per month, from $7,500 to $9,000, and the demand charge for kva over 3,000 per month be increased by $0.50 per kva, from $2.25 to $2.75. These proposed changes result in the total proposed general revenue increase of $2.9 million to Schedule 25 (excluding Potlatch), as shown on line 4, page 1, of Exhibit No. 20.

Q. Is the Company proposing that Potlatch's Lewiston Plant continue to be served under Schedule 25?

A. Yes. I will describe how the proposed Schedule 25 rates result in the proposed increase to Potlatch (19.7% general, 7.1% net of PCA decrease) later in my testimony.

Q. Have you estimated the increase to individual Schedule 25 customers based on the proposed rates?

A. Yes. There are 15 customers served under Schedule 25, including Potlatch. The proposed rates result in an increase ranging from a low of 11% to a high of 22%, with the average being 15% (line 4, column h, on page 2 of Exhibit No. 20). As a result of the proposed two-block energy rate structure, lower energy users under the Schedule would see a higher percentage increase, while higher users would see a lower percentage increase.

Q. What changes does the Company propose to the rates under Pumping Schedule 31 to recover the proposed general revenue increase of $597,000?

A. The proposed general increase applicable to Pumping Service Schedule 31 is spread on an equal cents per kwh basis to the present energy blocks in the Schedule. This results in a total general increase of 1.221 cents per kwh for all energy usage under the Schedule, which is shown in column (e) on Page 6 of Exhibit No.20.

Q. How is the Company proposing to spread the general revenue increase of $500,000 applicable to street and area lights to the rates contained in those schedules (Schedules 41-49)?

A. The Company proposes to increase all present street and area light rates on an equal percentage basis. The resulting (base tariff) rates are shown in the proposed tariffs for those Schedules, contained in Exhibit No. 19.

Proposed Electric Service to Potlatch's Lewiston Plant

Q. On January 15, 2004, in Order No. 29418, this Commission approved a new Power Purchase and Sale Agreement (Agreement) between Avista and Potlatch. Please provide a brief description of the Agreement.

A. The Agreement is for a ten-year term, beginning July 1, 2003 and ending June 30, 2013. As the sole purchaser of Potlatch's generation at the Plant, Avista pays Potlatch $42.92 per megawatt-hour for up to 543,120 megawatt-hours (62 average megawatts) generated by Potlatch during each "Operating Year" (July 1 through June 30) of the Agreement. This amount is equivalent to 62 average megawatts and is referred to in the Agreement as the "Base Generation Amount". There are special provisions in the Agreement for the purchase of additional amounts generated by Potlatch in excess of the Base Generation Amount. Avista will serve Potlatch's entire load requirements at the Lewiston Plant, approximately 100 average megawatts, under its Extra Large General Service Schedule 25 rates, including the present Power Cost Adjustment (PCA) surcharge and all other applicable rate adjustments, unless the Commission issues an order in the future authorizing different billing rates. Nothing in the Agreement prejudices either Avista's or Potlatch's right to propose, or the Commission to order in future rate proceedings, that Avista's service to Potlatch should be priced at rates other than Schedule 25.

Q. The Agreement states either Party can propose service rates for Potlatch that are different than Schedule 25. Is the Company proposing that Potlatch's Lewiston Plant (Potlatch) continue to be served under Schedule 25 (rates)?

A. Yes. The Company is proposing that Potlatch continue to be served under Schedule 25, however, the Company is proposing changes to the present Schedule 25 rate structure that will result in Potlatch paying an average rate per kwh that is lower than the average rate(s) paid by other Schedule 25 customers. Based on the 2002 actual customer loads used in this filing, the proposed average Schedule 25 base tariff rate per kwh for Potlatch would be approximately 3.81 cents per kwh, compared to 4.39 cents per kwh for all other Schedule 25 customers. Including the proposed PCA surcharge and other rate adjustments, Potlatch's average rate per kwh would be 4.07 cents, and the average rate for all other Schedule 25 customers would be 4.68 cents per kwh.

Q. Based on the proposed rates for Schedule 25, why is Potlatch's average rate so much lower than the average rate for other customers served under the Schedule?

A. As discussed earlier in my testimony, the Company is proposing a two-tier declining block energy rate structure for Schedule 25, as compared to the present single energy rate for all usage under the Schedule. Because of the magnitude of Potlatch's load requirements, over 99% of their (2002) energy usage would be priced at the lower second-block rate. For all other Schedule 25 customers in total, only 72% of their usage is priced at the lower second block rate. Additionally, Potlatch's load factor is substantially higher than other Schedule 25 customers, resulting in a lower effective demand charge per kwh as compared to the other customers. As a result of these two factors, the average proposed rate for service to Potlatch is lower than the average proposed rate for service to other Schedule 25 customers.

Q. Why does the Company believe that the effective (average) rate for Potlatch should be less than the rates for service to other Schedule 25 customers?

A. As shown in Exhibit No. 16, which is the Company's recommended cost of service study sponsored by Company Witness Knox, the Company has analyzed service to Potlatch's Lewiston Plant separately from other Schedule 25 customers. The relative size of Potlatch's load requirements alone warrants their separation in the cost of service study. Potlatch's energy usage at the Plant represents 28% of the Company's total Idaho retail load, and their energy usage is approximately three times the combined load of the fourteen other Schedule 25 accounts. As shown on lines 4 and 5, column d, page 3 of Exhibit No. 20, the results of the cost of service study show that the rate of return under present rates for service to Potlatch is higher than the Company's overall rate of return, while the rate of return for service to other Schedule 25 customers is substantially less than the overall rate of return. As discussed by witness Knox, one of the primary reasons for the difference in the present rate of returns for Potlatch and the other Schedule 25 customers is the assignment and allocation of distribution costs. Other Schedule 25 customers receive an allocation of all primary distribution costs, as well as a direct assignment of the substation costs from which they receive service. Potlatch receives service from only one Avista substation which is dedicated to provide them service. The costs associated with that substation are directly assigned to Potlatch. As service into that substation is at transmission voltage, no other primary distribution costs are allocated to Potlatch. Therefore, the cost of providing service to Potlatch is less than that for other Schedule 25 customers.

As discussed earlier, the Company is proposing a spread of the overall general increase to result in a one-half movement toward unity. Based on the present rates of returns shown in column (c) on page 3 of Exhibit No. 20, the Company is proposing a general increase for other Schedule 25 customers (27.4%) that is higher than the overall increase (24.1%), and a general increase to Potlatch (19.7%) that is significantly lower than the overall increase. As Potlatch has less rate base per kwh allocated to it relative to other customers (opposite of street and area lights discussed earlier), Potlatch would receive a smaller percentage increase than the overall increase in order to maintain the same relative rate of return before and after the increase. This rate base effect, together with the small movement toward unity in Potlatch's relative rate of return, results in the proposed general increase of 19.7% (7.1% net of PCA decrease) compared with the overall general increase of 24.1% (11.0% net of PCA decrease). This overall proposed increase is accomplished by continuing to serve Potlatch under Schedule 25 at the proposed rates and changes to the rate structure under the Schedule.

Q. It was estimated that the revenue and costs from the Agreement would result in an incremental annual revenue requirement to the Company's Idaho

operations of approximately $4.1 million. Is the $4.1 million estimate still reasonable, and if so, is that amount included in the total revenue requirement in this Case?

A. The $4.1 million estimate that was part of the analyses supporting the Agreement has not changed and is part of the overall revenue requirement requested in this Case. The $4.1 million incremental revenue requirement included in this Case represents the incremental net cost of the new Agreement to the Company compared to the net revenue and costs associated with the prior agreement which is reflected in the Company's present base tariff rates.

Q. In the Company's proposed rate spread by service schedule, how much, if any, of this $4.1 million incremental revenue requirement is included in the proposed rates for service to the Lewiston Plant?

A. The cost associated with the purchase of Potlatch's generation is treated like any other purchase power cost in the Company's cost of service study and allocated to all service schedules based on energy usage and peak demand. Based on the allocation of production expenses to Potlatch, Potlatch receives approximately 25.2% of these total expenses. Applying this percentage to the incremental revenue requirement of $4.1 million associated with the Agreement, Potlatch is being allocated approximately $1,033,000 of this incremental amount.

IV. PROPOSED NATURAL GAS RATE INCREASE

Q. Turning now to the Company's proposed natural gas increase, would you please explain what is contained in Exhibit No. 21, entitled "Proposed Changes to

Natural Gas Service Schedules"?

A. Exhibit No. 21 is a copy of the proposed changes (strikeouts and underlines) to the Company's natural gas general service tariffs as part of this filing.

Q. Would you please explain what is contained in Exhibit No. 22?

A. This Exhibit, entitled "Proposed Gas Rates", contains the proposed gas rates and schedules which are being filed with the Commission as a part of our revised tariff, IPUC No. 27.

Q. Would you please describe what is contained in Exhibit No. 23?

A. Exhibit No. 23 contains supplemental information regarding the spread of the proposed gas revenue increase to the Company's service schedules and the proposed rates within the schedules, which I will refer to later in my testimony.

Revenue Normalization Adjustment

Q. Could you please describe the "revenue normalization adjustment" applicable to natural gas sales?

A. Yes. The gas revenue normalization adjustment is similar to the electric adjustment and represents the difference between the company's actual revenues during the test period and revenues based on normalizing and pro forma adjustments. The adjustment includes the repricing of pro forma sales and transportation volumes at present rates using pro forma sales volumes that have been adjusted for unbilled revenue, abnormal weather, and any material customer load or schedule changes. The gas cost adjustment also includes the normalization of purchase gas costs based on pro forma retail sales volumes. The total net amount of both the revenue normalization and gas supply adjustments is a decrease of

$112,000 on a net operating income basis, as shown in column (p) page 6 of Exhibit No. 15.

The rates used to price pro forma sales and transportation volumes include the present rates contained in Schedule 150 – Purchase Gas Cost Adjustment, which is used to reflect approved changes in the Company's cost of gas in PGA filings. The rates used exclude: 1) temporary Gas Rate Adjustment Schedule 155, which reflects the approved amortization rate for deferred gas costs approved in the Company's last PGA filing, and 2) DSM rider adjustment Schedule 191.

Q. Would you please explain the purchase gas cost adjustment, which is included in the revenue normalization adjustment?

A. Pro forma purchase gas costs were determined by multiplying pro forma customer usage for the test period by the purchase gas cost(s) per therm, which were approved by the Commission in the Company's last PGA filing, effective October 3, 2003. The purchase gas cost adjustment is then determined by subtracting actual gas costs during the test year from pro forma gas costs. By making this adjustment, there is a matching of revenue and gas costs, using pro forma sales volumes for the test period and the approved rates and gas costs from the Company's last PGA filing.

Q. Is the Company proposing any changes to the present allocation of purchase gas costs by service schedule in this Case?

A. No, it is not.

<u>General Information</u>

Q. Would you please review the Company's present rate schedules and the types of gas service offered under each?

A. Yes. The Company's present Schedules 101, 111, and 121 offer firm sales service. Schedule 101 generally applies to residential and small commercial customers who use less than 200 therms/month. Schedule 111 is generally for customers who consistently use over 200 therms/month and Schedule 121 is generally for customers who use over 10,000 therms/month and have a high annual load factor. Schedule 131 provides interruptible sales service to customers whose annual requirements exceed 250,000 therms. Schedule 146 provides transportation/distribution service for customer-owned gas for customers whose annual requirements exceed 250,000 therms.

Q. The Company also has rate schedules 112, 122, and 132 on file with the Commission. Could you please explain what customers are eligible for service under these schedules?

A. Schedules 112, 122, and 132 are in place to provide service to customers who at one time were provided service under Transportation Service Schedule 146. The rates under these schedules are the same as those under Schedules 111, 121, and 131 respectively, except for the application of temporary Gas Rate Adjustment Schedule 155. Schedule 155 is a temporary rate adjustment used to amortize the deferred gas costs approved by the Commission in the prior PGA. Transportation service customers are analyzed individually to determine their appropriate share of deferred gas costs. If those customers switch back to sales service, the Company continues to analyze those customers individually, otherwise, those customers would receive amounts of gas costs deferrals which are not due them, thus the need for Schedules 112, 122, and 132. There are presently only 4 customers in total served under these Schedules.

Q. How many customers does the Company serve under each of its rate schedules?

A. As of December 2003, the Company provided service to the following number of customers under each of its schedules:

Schedule	Type of Customer	No. of Customers
General Service 101	Residential & Sm. Commercial	61,200
Lg. General Service 111	Comm. & Ind. - over 200 therms/mo.	580
Ex. Lg. Gen. Service 121	Comm. & Ind. - over 10,000 therms/mo.	10
Interruptible Service 131	Interruptible - over 250,000 therms/yr.	2
Transportation Service 146	Transportation of Customer-owned Gas	7

Q. Does the Company serve any natural gas customers under special contracts, with rates for service not included in any of its filed tariffs?

A. Yes. The Company serves three transportation service customers under special contracts, all of which were filed with and approved by the Commission. All three of the contracts were negotiated, executed, and approved based on the customer's close proximity to an interstate pipeline and their reasonable ability to bypass the Company's distribution system. The first contract is with Potlatch for transportation service to their Lewiston Plant. This agreement was executed in 1993 and approved by Commission Order No. 25023 in Case No. WWP-G-93-4. The next agreement is with Lignetics, a wood pellet manufacturing plant located near the city of Kootenai. This agreement was approved by Commission Order No.

24813 in Case No. WWP-G-93-1. The last agreement is with IMCO (formerly Imsamet), an aluminum recovery plant located in Kootenai County. This agreement was approved by Commission Order No. 26559 in Case No. WWP-G-96-2. All of the agreements presently evergreen from year-to-year except for the agreement with Potlatch, which has a four-year prior notice requirement for cancellation.

Q. How much revenue was collected from these special contract transportation customers during 2002, and how is this revenue treated in the Company's cost of service study?

A. Approximately $500,000 in revenue/margin was received from these three customers during 2002. That revenue has been credited back to the other service schedules in the cost of service study presented by Company Witness Knox.

Q. Natural gas prices and rates have risen substantially over the past several years. Has the Company seen a decrease in customer gas usage during this time?

A. Yes. From 1999 to 2002, Idaho residential and small commercial customers decreased their gas usage from an average of 82 therms per month to 73 therms per month, or about 11%. During this same period, the number of residential and small commercial customers served in Idaho increased by 11%, or about 5,800. The net result is that total gas sales to customers was essentially unchanged from 1999 to 2002, even though the Company added 5,800 customers.

Q. If residential customers used an average of 82 therms per month in 2002, compared to their actual use of 73 therms, how much additional margin (revenue less gas cost) would the Company have received during 2002?

A. The Company would have received approximately $1.3 million in additional margin which would reduce a substantial portion of the proposed revenue requirement.

Q. Do you foresee customers increasing their average consumption in the future?

A. I certainly would not expect customers to increase their consumption in the near-term. There are no evident signs of gas prices falling considerably in the next year or so, and with the rapid increase customers have seen in natural gas prices, it is unlikely they would substantially change their consumption level unless prices decreased substantially and remained at a lower level for several years.

<u>Proposed Rate Spread</u>

Q. How does the Company propose to spread the overall revenue increase of $4,754,000, or 9.2%, among its general service schedules?

A. The Company is proposing the following revenue/rate changes by rate schedule:

General Service Schedule 101	10.0%
Large General Service Schedule 111/112	6.6%
High Annual Load Factor – Lg. General Service Schedule 121/122	3.8%
Interruptible Sales Service Schedule 131/132	3.4%
Transportation Service Schedule 146	18.2%

This information is also shown on Page 1 of Exhibit No. 23.

Q. Why is the Company proposing such a substantial increase for Transportation Schedule 146?

A. The proposed increase for Transportation Schedule 146 is not comparable to the proposed increases for the other (sales) service schedules, as Schedule 146 revenue does not include an amount for the cost of gas or pipeline transportation, whereas the other sales schedules include those costs/revenue (Transportation customers acquire their own gas and pipeline transportation). Including an assumed level of 50.0 cents per therm for the cost of gas and pipeline transportation, the proposed increase to Schedule 146 rates represents an average increase of 3.2% in those customers' total gas bill, which is then expressed on a relatively comparable basis to the proposed increase to the other (sales) service schedules.

Q. What rationale did the Company use in its proposed spread of the overall revenue increase to the various rate schedules?

A. The Company again utilized the results of the cost of service study, as sponsored by Company witness Knox, as a guide in developing the proposed rate spread. The proposed spread of the increase results in approximately a one-half movement of the rate of return for each of the sales service schedules toward unity.

Page 2 of Exhibit No. 23 shows the rates of return for each of the Company's gas schedules before and after application of the proposed increases. Column (d) shows the relative rates of return under present rates and column (f) shows the relative rates of return under proposed rates. The relative rates of return before and after application of the proposed increases by schedule are as follows:

	Before	After
Schedule 101:	0.95	0.98
Schedule 111:	1.21	1.11
Schedule 121:	1.25	1.13
Schedule 131:	1.49	1.24
Schedule 146:	1.58	1.28

As shown, the relative rates of return for all schedules move approximately halfway toward unity (1.00) after application of the proposed increase(s).

Rate Design

Q. Could you please explain what is shown on Page 3 of Exhibit No. 23?

A. Yes. Page 3 of Exhibit No. 23 shows a comparison of the present and proposed rates within each of the Company's gas service schedules.

Q. Could you please explain the present rate design of the Company's gas service schedules?

A. General Service Schedule 101 generally applies to residential and small commercial customers who use less than 200 therms/month. The schedule contains a single rate/therm for all gas usage and a monthly customer/basic charge.

Large General Service Schedule 111 has a three-tier declining-block rate structure and is generally for customers who consistently use over 200 therms/month. The schedule consists of a monthly minimum charge for the first 200 therms or less, and block rates for 201-1,000 therms/month and usage over 1,000 therms/month.

High Load Factor - Large General Service Schedule 121 has a four-tier declining-block rate structure with a monthly minimum charge for the first 500 therms or less, and block rates for 501-1000 therms/month, 1,001-10,000 therms/month, and usage over 10,000 therms/month. There is also a minimum annual load factor requirement of approximately 58% under the Schedule.

Interruptible Sales Service Schedule 131 has a single rate for all usage and an annual minimum charge based on a usage requirement of 250,000 therms per year.

Transportation Service Schedule 146 consists of a single rate for all volumes transported on the Company's distribution system and an annual minimum charge based on 250,000 therms per year.

Q. Is the Company proposing any changes to the present rate structures contained in its gas service schedules?

A. Yes, but only one. The Company is proposing that a monthly customer / basic charge be added to Transportation Service Schedule 146. I will discuss this proposed change later in my testimony.

Q. You stated earlier in your testimony that the Company is proposing an overall increase of 10.0% to the rates of General Service Schedule 101. Is the Company proposing an increase to the present basic/customer charge of $3.28/month under the schedule?

A. Yes, it is. The Company is proposing that the basic charge be increased from $3.28 to $5.00 per month. The present basic charge of $3.28 has been in effect since 1989. During that time, the Company's costs associated with providing gas service have increased substantially. Page 4 of Exhibit No. 23 shows the monthly cost associated with meters, meter reading, billing, and service lines, as extracted from the Company's cost of service study. The service line provides a connection from the distribution main, which typically runs along side the street in front of a customer's residence, to the customer's meter. As shown, these costs average $9.71 per customer per month; therefore, the proposed basic charge of $5.00 would only recover about one-half of these basic fixed costs required to provide service. The Company believes that the basic charge should, at a minimum, recover these costs. However, given the level of the overall increase proposed in this filing, the Company believes that the proposed increase from $3.28 to $5.00 is reasonable.

Q. What is the present gas basic / customer charge for the Company's Schedule 101 customers in Washington?

A. $5.00 per month.

Q. Given the proposed increase to the basic charge, what is the resulting increase to the rate per therm under Schedule 101, in order to achieve the proposed revenue increase of 10.0%?

A. The resulting proposed increase to the energy rate under the schedule is 5.515 cents per therm.

Q. What would be the increase for a residential customer using an average amount of natural gas?

A. The increase for a residential customer using an average of 73 therms of gas per month would be $5.75 per month, or 9.6%. A bill for 73 therms per month would increase from the present level of $60.01 to a proposed level of $65.76, including all gas rate adjustments presently in effect.

Q. Could you please explain the proposed changes in the rates for Large and Extra Large General Service Schedules 111 and 121?

A. The present rates for Schedules 101, 111, and 121 provide a clear distinction for customer placement: customers who use less than 200 therms/month should be placed on Schedule 101, customers who use between 200 and 10,000 therms per month should be placed on Schedule 111, and only those customers who generally use over 10,000 therms per month should be placed on Schedule 121. The rates provide a guide for customer schedule placement, as well as a reasonable classification of customers for analyzing the costs of providing service.

The Company's proposed rates for Schedules 111 and 121 will maintain the rate structure within the schedules and continue to provide a guide for appropriate schedule placement for customers and a reasonable classification for cost analysis. The proposed increase to the minimum charge for Schedule 111 (for 200 therms or less) of $12.75 per month was derived by multiplying the proposed increase to the Schedule 101 rate per therm (5.515 cents) by 200 and adding the proposed increase in the customer charge of $1.72 ($5.00 less $3.28). The remaining proposed revenue increase for Schedule 111 was then spread on an equal cents per therm basis (4.140 cents) to the remaining two rate blocks under the Schedule, resulting in an overall revenue increase of 6.6% for the Schedule.

For Schedule 121, the increase in the minimum charge (for 500 therms or less) of $29.30 was derived by multiplying the proposed increase in the Schedule 101 rate per therm by 500 and adding the increase in the customer charge of $1.72. The second and third block rates were then set equal to the corresponding block rates under Schedule 111 (4.140 cents per therm increase). The proposed increase to the tail-block rate (over 10,000 therms) is 1.066 cents per therm, resulting in an overall revenue increase of 3.8% for the Schedule.

The Company is also proposing an annual minimum usage requirement of 60,000 therms for service under the Schedule. This requirement will not affect any customers presently served under the Schedule and will provide a guide for customer placement under the Schedule. This annual minimum usage requirement has been in effect for several years under the corresponding rate schedule in Washington where it has mitigated past problems regarding improper customer placement under the Schedule.

Q. What is the proposed increase in the rate for Interruptible Service Schedule 131?

A. The proposed increase is 1.876 cents per therm, which results in the proposed revenue increase of 3.4% for the schedule.

Q. Is the Company proposing any other changes to the rates set forth under Schedule 131?

A. Yes. The present annual minimum charge is based on 250,000 therms times the per therm sales under the Schedule, which includes gas costs. The Company proposes to revise the annual minimum charge to an annual minimum deficiency charge based on margin, as it appears unreasonable to charge the customer for gas costs when the gas was not used. This annual deficiency charge will be determined by subtracting the customer's annual usage from 250,000 therms. Any resulting usage deficiency will be multiplied by the present margin (revenue less gas costs) per therm under the Schedule, with the proposed margin level being 10.735 cents per therm.

Q. You mentioned previously that the Company is proposing a change in the rate structure for Transportation Service Schedule 146. Could you please explain the proposed change?

A. As shown in column (c) on Page 3 of Exhibit No.23, the Company is proposing a monthly customer charge of $200.00, which is equivalent to the present customer charge for transportation customers served in Washington. There are significant administrative costs associated gas scheduling, balancing, and billing transportation customers. The proposed customer charge is reasonably reflective of these administrative costs.

Q. Given the proposed customer charge of $200 per month under the Schedule, what is the proposed increase in the rate per therm.

A. The proposed increase in the rate per therm under Transportation Schedule 146 is 1.526 cents, as shown in column (b) on page 3.

Q. Is the Company proposing any changes to the terms and conditions under its gas service schedules?

A. Yes. The Company has added several provisions under Transportation Schedule 146 related to gas interruption and entitlement, and the proposed penalty provisions for customer overrun or underrun volumes in these various situations. These proposed provisions are contained in Schedule 146 – Sheet A in Exhibit No. 22.

Q. Are these proposed provisions consistent with the penalty provisions contained in Northwest Pipeline's tariff and the Company's approved Washington transportation tariff?

A. Yes they are.

V. ELECTRIC AND NATURAL GAS ENERGY EFFICIENCY PRUDENCE REQUEST

Q. What is the Company's request in this case regarding energy efficiency?

A. When the Commission approved the Company's energy efficiency programs in 1995 (in Case Nos. WWP-E-94-12 and WWP-G-94-6), Avista committed to demonstrating the prudence of program expenditures in future general rate cases. In the Company's last general electric rate case (Case No. WWP-E-98-11), the Commission issued a finding that electric expenditures from the inception of the program through December 31, 1998 were prudently incurred. At this time, the Company respectfully requests that the Commission issue a finding that electric energy efficiency expenditures from January 1, 1999 through December 31, 2003 and natural gas energy efficiency expenditures from March 13, 1995 through December 31, 2003 were prudently incurred.

Q. Would you please summarize the Company's energy efficiency-related programs?

A. Yes. As the Commission is aware, the Company's tariff riders under Schedules 91 and 191 were the first non-bypassable distribution charges in the United States to fund energy efficiency. The electric energy efficiency tariff rider is a 1.95% surcharge to all rate classes, with the exception of pre-existing special contracts; the natural gas tariff rider is a 0.50% distribution surcharge. Due to rising gas costs, it was reinstated in 2001 after its initial implementation from 1995 through 1997.

The tariff rider and the corresponding energy efficiency programs, have been very successful. Over 286 million kWh and 5.8 million therms have been saved through the Company's energy efficiency programs since 1995.

Q. Please summarize the Company's conclusions.

A. The Company's expenditure of tariff rider revenue has been reasonable and prudent. A portfolio of programs covering all customer classes have been offered with a total savings of over 286 million annual kWhs and 5.8 million therms. A 15-year levelized utility cost per saved kilowatt hour of 1.4 cents per kWh has been achieved. The levelized avoided costs during this similar period has been 4.7 cents per kWh. The 15 year levelized utility cost per saved therm has averaged 14 cents per therm.

From a qualitative perspective, the rider and programs have been very successful. Participating customers have benefited through lower bills. Non-participating customers have benefited from the Company having acquired low cost resources as well as maintaining the energy efficiency message and infrastructure for the benefit of our service territory. During 2001, when energy prices rose to unprecedented levels, the Company was able to quickly ramp up its energy efficiency programs. During a six-month period, Avista's energy programs acquired three times its annual target savings at two times the price in half the time.

Q. How are the energy efficiency programs organized?

A. The programs are organized around an expertise-based technical assistance program portfolio. The Company's approach focuses on educating the customer about the benefits of energy efficiency, providing a third party review, and outlining potential savings of the project.

Q. What customer classes can benefit from these programs?

A. The Company's programs are delivered across a full customer spectrum. Virtually all customers have had the opportunity to participate and a great many have directly benefited from the program offerings. All customers have indirectly benefited through enhanced cost-efficiencies of both the public and private sectors as a result of this portfolio.

For example, Avista has worked in cooperation with governmental entities such as the Coeur d'Alene and Post Falls School Districts, the University of Idaho, North Idaho College and others to secure cost-effective energy savings that directly benefit those specific agencies but also indirectly benefit the community at large. Avista's work with major regional employers in the private sector has materially improved their ability to compete in global markets through implementing cost-effective energy-efficiency measures. Avista has directly benefited residential customers through a broad array of well-received electric and gas energy-efficiency programs.

Q. Has there been ongoing review of the Company's programs?

A. Yes. The Company has regularly convened a stakeholders forum known as the External Energy Efficiency Board. These meetings have included customer representatives, Commission staff members, and individuals from the environmental communities. These stakeholder meetings have reviewed each program as well as the underlying cost-effectiveness tests and results.

VI. MISCELLANEOUS FEES

Q. Is the Company proposing any changes to miscellaneous fees in this case?

A. Yes. The Company is proposing minor changes to non-recurring charges for reconnection for gas service following either voluntary or involuntary disconnects, as well as after-hours service turn-ons. The proposed changes to reconnection rates on Schedules 70-d, 170-e, and 170-g.2 reconciles these rates so there is only one set of charges that applies to any reconnect or service turn-on situation. The proposed rate is $24 for reconnections occurring during normal business hours and $48 for after hours plus $4 for each additional service connected at the same time. The net change to revenue would be less than $5,000 based on 2003 activity at the new rates. This is essentially a housekeeping revision to miscellaneous fees.

Q. Does that complete your pre-filed direct testimony in this proceeding?

A. Yes, it does.