

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSION SECRETARY
COMMISSION STAFF

FROM: KRISTINE SASSER
DEPUTY ATTORNEY GENERAL

DATE: JULY 7, 2011

SUBJECT: CASE NOS. AVU-E-11-01 / AVU-G-11-01
GENERAL RATE CASE – ELECTRIC/GAS

On July 5, 2011, Avista filed an Application seeking authority to increase the Company's general rates for electric and natural gas service in Idaho by averages of 3.7% and 2.7%, respectively. If approved, the Company's revenues for electric based rates would increase by \$9 million annually. Company revenues for natural gas would increase by \$1.9 million annually. The Company requests an effective date of August 5, 2011, for its proposed electric and natural gas rate increases.

THE APPLICATION

Avista is a public utility primarily engaged in the generation, transmission and distribution of electric power and the distribution of natural gas in portions of eastern and central Washington, northern Idaho, as well as distribution of natural gas in northeast and southwest Oregon. The Company's existing Idaho rates and charges for electric and gas service were approved by the Commission on September 21, 2010, and became effective on October 1, 2010. Order No. 32070.

The Company's Application maintains that its proposed revenue increases are driven primarily by an increase in Net Plant Investment (including return on investment, depreciation and taxes, and offset by the tax benefit of interest), increases in distribution, operation and maintenance (O&M), and administrative and general (A&G) expenses, partially offset by a reduction in net power supply and transmission expenditures. Application at 3-4.

Evidence in support of the Company's need for a rate increase for electric and natural gas is based on a 12-month test year ending December 31, 2010. *Id.* at 4. The Company is

requesting an overall rate of return of 8.49% with a proposed 10.9% return on equity. *Id.* at 7. Avista asserts that it will notify each customer of the proposed rate increases through a bill stuffer during a billing cycle and by issuing a news release.

A. Electric Service

The Company contends that approximately 90% of the revenue requirement requested in this case is due to an increase in Net Plant Investment. The Company maintains that it experienced an increase of approximately \$21 million in net plant rate base for the Idaho jurisdiction. Morris Testimony at 17. The remaining 10% is due to increases in O&M and A&G expenses.

The proposed increase for a residential customer using an average of 956 kWhs per month is \$3.06 per month, or a 3.7% increase in their electric bill. This includes a Company-proposed increase in the basic/customer charge from \$5.00 to \$5.50 per month. Ehrbar Testimony at 5. The Company is not proposing any changes to the present rate structures *within* its electric schedules. *Id.* at 6.

B. Gas Service

The Company asserts that its proposed increase in natural gas rates is primarily driven by changes in various operating cost components. Approximately two-thirds of the increase is due to O&M and A&G expenditures, such as increased costs in employee benefits. The remaining one-third increase is a result of net plant investment, due to additional Company investment in underground storage facilities, distribution and general plant. Morris Testimony at 18. The proposed increase for a residential customer using an average of 62 therms of gas per month would be \$2.15 per month, or a 3.5% increase in their gas bill. As part of this increase, the Company is proposing an increase in the monthly customer charge from \$4.00 to \$4.50 per month. Ehrbar Testimony at 7. The Company is not proposing any changes to the present rate structures *within* its gas service schedules. *Id.* at 32.

STAFF RECOMMENDATION

Staff recommends that the Commission suspend the rates which are the subject of this Application for a period of 30 days plus 5 months from the proposed August 5, 2011, effective date. Staff further recommends that the Commission issue a Notice of Application establishing a 14-day deadline for intervention. Staff will recommend further procedure as the case develops.

COMMISSION DECISION

1. Does the Commission wish to suspend the Company's proposed effective date of August 5, 2011, for a period of 30 days plus 5 months pursuant to *Idaho Code* §§ 61-622 and 61-623?
2. Does the Commission wish to issue a Notice of Application and establish a 14-day deadline for intervention?



Kristine A. Sasser
Deputy Attorney General

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