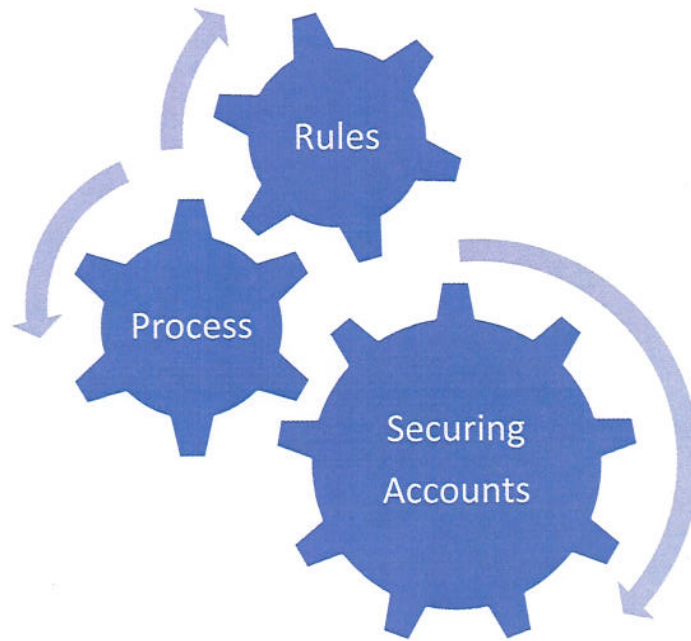


Avista Corporation

Deposit Effectiveness Study

Idaho Residential Accounts



## **Background**

On September 29, 2008, the Idaho Public Utilities Commission (IPUC or the Commission) initiated Case No. GNR-U-08-01 to provide a forum for the exploration of issues related to the affordability of energy in Idaho. The Commission, in Order No. 30724 noted that rising energy costs were affecting utilities and their customers and that a variety of factors were contributing to significant upward pressure on electric and natural gas rates in Idaho. In addition, Idaho citizens have been facing broader economic challenges. As a result, energy affordability has become a central issue for many Idaho households and businesses. Two public workshops, open to any and all parties, were conducted by Commission Staff at the Commission office on October 14 and October 22, 2008. The purpose of the workshops was to identify issues and discuss solutions pertaining to energy affordability and customers' ability to pay energy bills. As a result of the Commission Staff's Final Report, dated January 16, 2009, Avista committed to conduct a study of the effectiveness of collecting residential deposits and to provide its results to the Commission by year end of 2009.

## **Introduction**

Alternatives to existing deposit policies explored during the workshops included: 1) allowing payment over an extended period of time; 2) reducing the dollar amount of deposits; 3) waiving deposits under certain circumstances; or 4) deferring collection of a deposit subject to future payment performance. Currently, all of these alternatives can be implemented by utilities voluntarily. However, as stated in Staff's Final Report, changes to the Commission's rules might be necessary.

Avista's work on the deposit effectiveness study is based on Idaho residential accounts. This report includes statistics, as well as observations, made during the course of the study covering 2006 through the third quarter of 2009.

The study reviewed current IPUC Rules, as well as other states' rules, Avista's current process and tools, statistics regarding deposits, and opportunities to increase effectiveness of deposits.

## Deposit Rules

The IPUC Deposit Rules (I.D.A.P.A 31.21.01 (100-199)) [Deposit Practices For Residential And Small Commercial Customers] provide the requirements regarding when a deposit can be requested, the deposit amount, the required payment arrangement options, the return of the deposit, and deposit interest and refund requirements. The following are reasons that a deposit may be requested for an Idaho residential account.

- Unpaid overdue balance from a previous account within the past four (4) years;
- Previous disconnect in the past four (4) years for nonpayment, misrepresentation, or theft of service;
- Previous customer still resides at the same address with an unpaid balance;
- Two (2) final notices in the last 12 months; and
- Providing false ID.

Additional criteria in the Rules regarding deposits include the following:

- The deposit amount does not exceed two (2) times the average bill at the premise;
- Installments are offered to customers when a deposit is required, allowing the customer to pay half at that time and the remaining half in one (1) month;
- The deposit is returned to the customer after one (1) year if credit is established for the account, no more than one late payment during the past twelve months of service; and
- The deposit accrues interest, based on the interest rate set annually by the Commission, from the time the deposit has been paid or the installment is made until the deposit is refunded.

The States Avista chose to use for comparison for the purpose of the study were: Idaho, Oregon, Washington, Montana, Arizona and Wyoming. As will be shown in this section, the Utility Commission Rules vary between States; however they do have some similarities. The charts below provide a summary of the six Commission rules regarding an account that is eligible for a deposit.



Deposit requested at the time service is established or the account is opened:

Reasons for Deposit Eligibility at Open	ID	OR	WA	MT	AZ	WY
New Customer		X	X	X	X	X
Unpaid overdue balance from previous account	X	X	X	X		
Previous disconnect for nonpayment	X	X	X	X	X	X
Previous customer still resides at the same address with unpaid balance	X		X	X		
Notice History	X		X	X		
Misrepresentation	X	X				X
Theft of Service	X	X		X		X
Delinquency on Bills				X	X	X

After the account has been established:

Reasons for Deposit Eligibility after account is established	ID	OR	WA	MT	AZ	WY
Disconnection	X	X	X	X	X	X
Late Payments					X	
Notices	X		X			

There are multiple events that can trigger an account to be reviewed for deposit eligibility. The challenge is to balance the customer's needs and account risk with the responsibility to the utility and to ratepayers. There can be time and resources associated with completing a check for eligibility and meeting appropriate notice requirements if a deposit is requested.

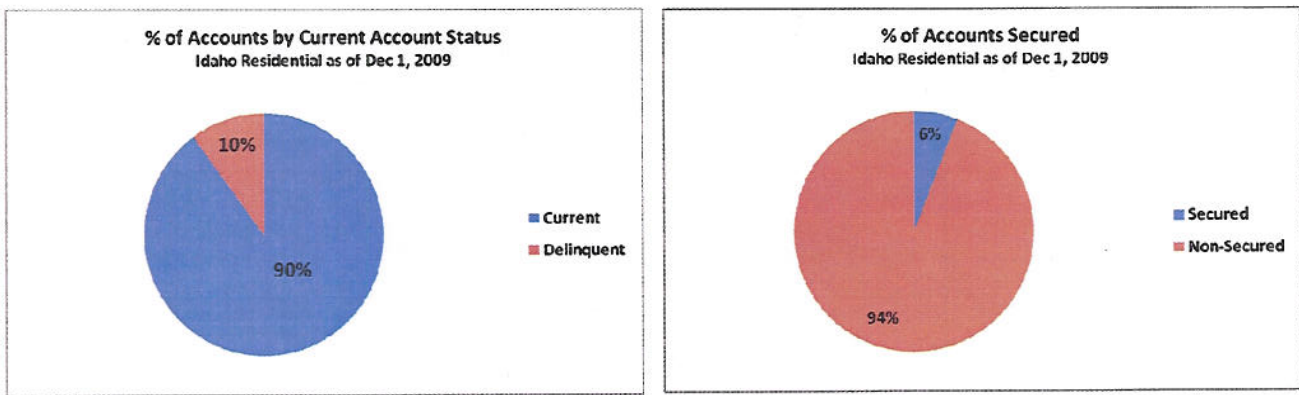
### Avista's Deposit Statistics and Process

Avista follows a formal process and adheres to its guidelines to review new accounts and accounts disconnected for non-payment for deposit eligibility. In addition, there are times accounts are reviewed after the account has been established due to account activity, and is done on a case by case basis.

Programming was implemented into Avista's customer service system in 1994 to process deposits. The programming includes the ability to charge, waive, apply, and refund deposits. It also includes the programming to adjust the interest rates used for deposits on file and to apply the interest to the accounts. Since implementation, the additional time and costs to maintain

this programming, as well as other administrative costs have been minimal due to no significant changes to deposit regulation.

The Company serves approximately 170,000 residential electric and natural gas customers in the State of Idaho. Currently, ten percent of Idaho residential customers are delinquent on their bill. Six percent of Idaho customers have an active deposit and of those, 42 percent are currently delinquent on their bill.



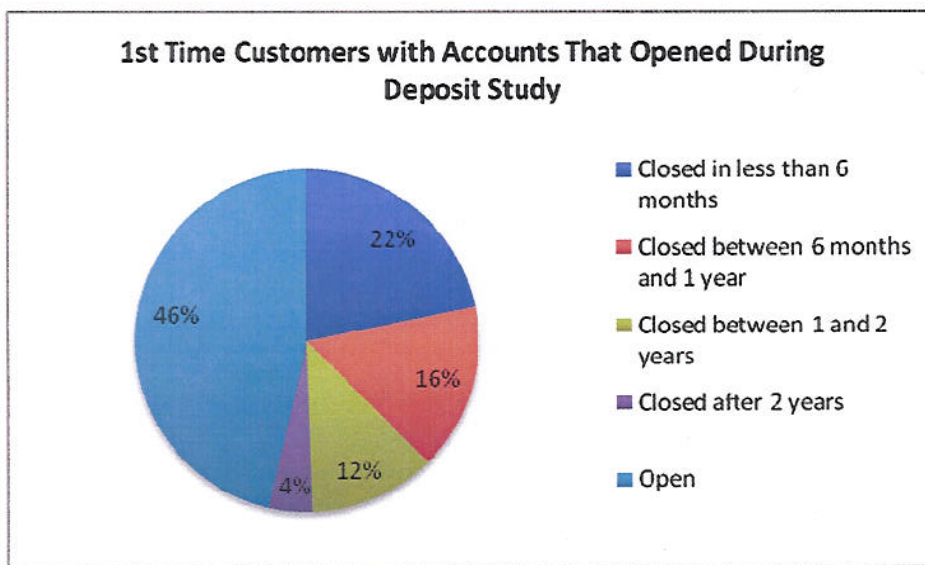
Based on the statistics above, Avista is securing accounts at a lower percentage than our delinquencies. While delinquency currently does not mean the account is eligible for a deposit, it can be an indicator for the need to secure the account.

### Challenges

The review of Company processes as well as the IPUC Rules for deposits has provided an opportunity to explore possible changes to improve deposit effectiveness. Ideally, any account that shows a risk would be required to secure the account with a deposit to prevent or lessen the dollars that could become uncollectible. We believe that consumers in general understand and expect companies to secure accounts at the time an account is established and often plan for the additional expense. The challenge is when an account requires securing based on account behavior after the account has been established. Often this is when a consumer is

struggling financially and the additional dollars to secure the account are more difficult for the consumer to make payment arrangements for.

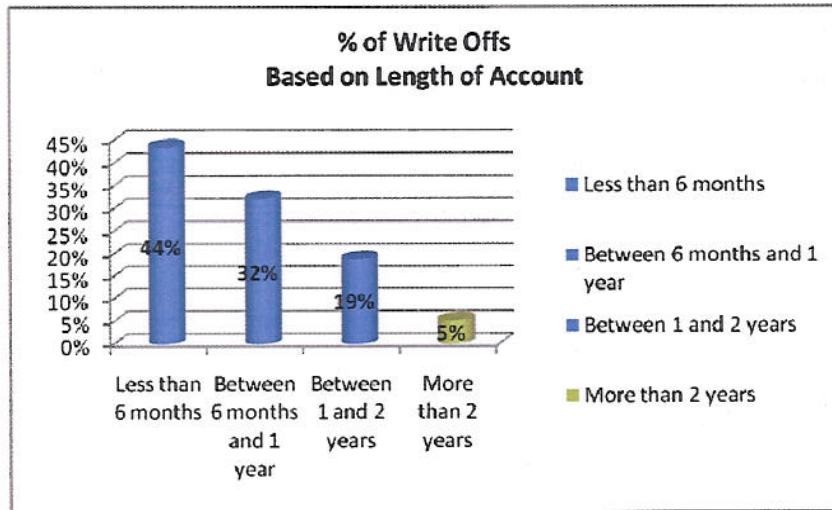
All other states reviewed in this study allowed securing of an account based on a “new customer” status. The following represents the length of time accounts were open for Avista’s first time customers that have opened and closed accounts since the beginning of the study:



- 54% of the 1<sup>st</sup> time customers that opened an account since January 2006 have closed the account.
  - 49% of these accounts closed in less than 2 years
  - 38% of these accounts closed in less than 1 year

A review of the first time customers during the course of the study shows 20 percent of the accounts that were closed within 2 years were written off. Of these customers that were written off, the following is a break-down of accounts based on the length of time the accounts were open:

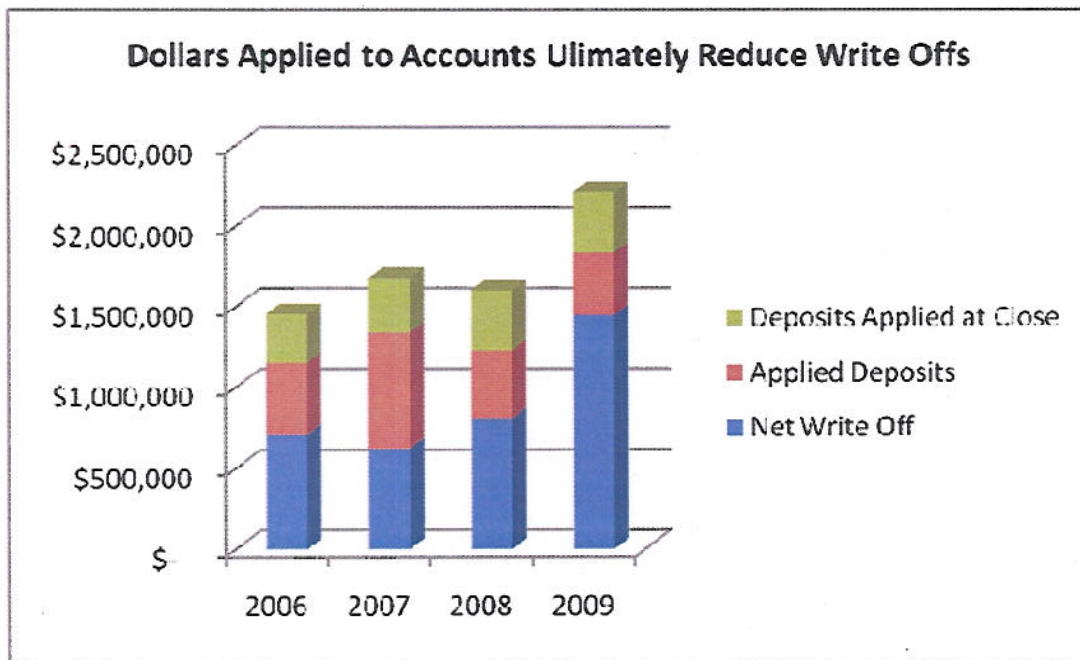




- 95% of the write offs resulted from accounts open less than 2 years.
- 76% of the write offs resulted from accounts open less than 1 year.

### Conclusion

Deposits at Avista have proven to be successful in securing customer accounts and minimizing the ratepayer impact due to uncollectibles. The effectiveness of deposits clearly has an impact through the application of the deposit to unpaid balances that reduce the uncollectible dollars. For example, deposits applied within ten days of the close of an account, reduced the customers balance due, by approximately \$1.4 million over the course of the study as reflected by the green bar below. This represents 39% of the combined net write offs (Idaho residential and non-residential) for the same period. The chart below shows the impact if deposits had not been applied to the accounts and if the dollars had remained uncollectible.



Another challenge and opportunity would be to create a deposit follow up program that treats and secures accounts that have proven a credit risk through account behavior. Avista currently has over 7,000 customers that could be reviewed to determine if a deposit should be requested if a deposit follow up program were implemented.

As provided in comments in the Affordability Workshops, Avista agrees that obtaining financial security from at risk customers is an essential practice in mitigating bad debt losses and in controlling potential rate increases to all its customers. Realizing that an additional cash deposit can be difficult for struggling customers, utilities could offer alternative security solutions, such as a guarantor, where no cash transaction is needed to satisfy the deposit request or provide the customer service representative the flexibility to request or waive the deposit depending on each customer's unique situation. The administrative costs associated with deposits are, by far, outweighed by the potential bad debt losses that are prevented through utility deposit practices. Deposit policies act in the interest of all ratepayers because these customers are the ones that ultimately bear the burden of higher rates when bad debt losses are not controlled.



There is opportunity to improve deposit requirements through changes to Commission Rules as well as through internal process changes. Again, these changes could have a positive impact for customers, the Commission, and the utility companies. Avista continues to support securing customer accounts through the collection of deposits. The ability to collect deposits enables the Company to better manage its uncollectibles, and to maintain a lower than average net write off percentage.

Per the analysis included in this report, Avista would request that the Commission review its current deposit rules and require that new customers without previous history be included in the request for deposit.