

## DECISION MEMORANDUM

**TO:** COMMISSIONER KEMPTON  
COMMISSIONER SMITH  
COMMISSIONER REDFORD  
COMMISSION SECRETARY  
COMMISSION STAFF

**FROM:** DON HOWELL AND KRISTINE SASSER  
DEPUTY ATTORNEYS GENERAL

**DATE:** APRIL 1, 2010

**SUBJECT:** CASE NOS. AVU-E-10-01 AND AVU-G-10-01  
GENERAL RATE CASE – ELECTRIC AND GAS

On March 23, 2010, Avista Corporation dba Avista Utilities filed an Application seeking authority to increase the Company's general rates for electric and natural gas service in Idaho by averages of 14% and 3.6%, respectively. If approved, the Company's revenues for electric base rates would increase by \$32.1 million annually. Company revenues for natural gas would increase by \$2.6 million annually. The Company requests an effective date of April 23, 2010, 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 July 17, 2009, and became effective on August 1, 2009. Order No. 30856.

The Company's Application maintains that its proposed revenue increases are driven primarily by increased power supply costs, increased costs to meet additional compliance requirements, the need to replace aging infrastructure, and changes in other various costs of providing electric and natural gas services to its customers. Application at 3. The Company anticipates capital expenditures of approximately \$420 million over the next two years to assure reliability in serving its current customers and meeting customer growth. *Id.* at 6. The Company

asserts that it has taken measures to cut costs and increase operating efficiencies in an effort to mitigate a portion of its cost increases. *Id.* at 5.

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, 2009. *Id.* at 4. The Company is requesting an overall rate of return of 8.55% with a proposed 10.9% return on equity. *Id.* at 6. 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 its proposed increase in electric rates is primarily driven by an increase in production and transmission expenses. The Company maintains that 80% of its overall request for an increase is due to the additional costs of the Lancaster plant Power Purchase Agreement, the termination of some low-cost power purchases, reduced hydro generation, and increased fuel costs and higher retail loads. Morris Direct at 9.

The proposed increase for a residential customer using an average of 964 kWh's per month is \$11.40 per month, or a 14.6% increase in their electric bill. This includes a Company-proposed increase in the basic/customer charge from \$4.60 to \$6.75 per month. Ehrbar Direct at 4. The Company is not proposing any changes to the present rate structures *within* its electric schedules. *Id.* at 5.

#### ***B. Gas Service***

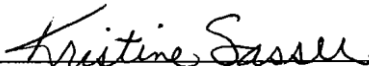
The Company asserts that its proposed increase in natural gas rates is primarily driven by the inclusion in this case of the increased plant investment and inventory associated with the transfer of additional capacity and deliverability in the Jackson Prairie Storage facility from Avista Energy to Avista Utilities, effective May 1, 2011. Morris Direct at 10. The proposed increase for a residential customer using an average of 63 therms of gas per month would be \$2.77 per month, or a 4.9% 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 \$6.75 per month, to recover a more reasonable level of fixed costs. Ehrbar Direct at 6. The Company is not proposing any changes to the present rate structures *within* its gas service schedules. *Id.* at 29.

### 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 April 23, 2010, 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 April 23, 2010, 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?

  
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Deputy Attorneys General

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