

## DECISION MEMORANDUM

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

**FROM: KARL KLEIN  
DEPUTY ATTORNEY GENERAL**

**DATE: OCTOBER 25, 2012**

**SUBJECT: CASE NOS. AVU-E-12-08 / AVU-G-12-07  
GENERAL RATE CASE – ELECTRIC/GAS**

On October 11, 2012, Avista applied to the Commission for authority to increase its electric base rates by \$11.4 million (4.6%) and its natural gas base rates by \$4.6 million (7.2%). Application at 1. The Company says its average residential customer would experience an electric bill increase of \$4.20 (5.3%) and a natural gas bill increase of \$4.12 (7.8%). *Id.* at 11. The Company asks for the new rates to take effect on April 1, 2013. *See* Amendment to Application.<sup>1</sup>

### THE APPLICATION

Avista generates, transmits, and distributes electric power, and distributes natural gas in parts of eastern and central Washington, northern Idaho. It also distributes natural gas in northeast and southwest Oregon. The Commission approved the Company's existing, Idaho rates and charges on September 30, 2011, and they took effect in October 2011. Application at 2-3, *citing* Order No. 32371.

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<sup>1</sup> In its Application, the Company requested a November 10, 2012 effective date and asked the Commission to suspend that date for 30 days and 5 months. The Company requested the suspension in recognition of Commission Order No. 32371, which was issued in the Company's last rate case and approved a stipulation that states: "8. Limitation on Effective Date of Any New Rates Established By Subsequent General Rate Filing. The Company agrees that it will not seek to make effective a change in base electric or natural gas rates prior to April 1, 2013, by means of a general rate filing. (*Any filing of a general rate case, however, may be made prior to April 1, 2013, but shall not request an effective date prior to April 1, 2013.*)" [Italics added]. On October 25, 2012, the Company filed an Amendment to Application and new proposed tariff sheets that changed the requested effective date to April 1, 2013. *See* Amendment to Application. This memorandum collectively refers to the Application and the Amendment to Application as the "Application."

The Company claims its existing rates are not fair, just, and reasonable, and that it must increase rates and revenues to enable it to earn a fair return on its investment. The Company seeks an 8.46% rate of return, which includes a 50% equity ratio, a 6.02% pro forma cost of debt, and a 10.9% return on equity. Application at 3-4. The Company says its proposed percentage increases by rate schedule for electric and natural gas service are reflected in the tables below:

**Proposed Electric Increase by Percentage**

Service Schedule	Proposed Increase in Billed Revenues
Residential Service Schedule 1	5.3%
General Service Schedules 11 & 12	4.1%
Large General Service Schedules 21 & 22	4.8%
Extra Large General Service Schedule 25	3.9%
Extra Large General Service Schedule 25P	3.3%
Pumping Service Schedules 31 & 32	5.7%
Street & Area Lighting Schedules 41-48	4.5%
<b>Overall Increase</b>	<b>4.6%</b>

**Proposed Gas Increase by Percentage**

Service Schedule	Proposed Increase in Billed Revenues
General Service Schedule 101	7.8%
Large General Service Schedule 111	5.7%
Interruptible Sales Service Schedule 131	5.9%
Transportation Service Schedule 146 (excluding natural gas costs)	12.8%
<b>Overall Increase</b>	<b>7.3%</b>

*See Direct Testimony of Scott L. Morris at 19-20.*

The Company says its evidence supporting the requested rate increase is based on a 12-month test year ending June 30, 2012, and that the following investment-and-expense increases drive its need for rate relief: (1) increases in net plant investment (including return on investment, depreciation and taxes, and offset by the tax benefit of interest); and (2) increases in distribution, operation and maintenance, and administrative and general expenses, which are partially offset by reduced net power supply and transmission expenditures. Application at 3-4.

The Company explains that much of its need for rate relief is driven by increased costs associated with the need to expand and replace its aging utility infrastructure, and its obligation to reliably serve customers. *Id.* at 5. Notably, the Company plans to make \$500 million in capital expenditures from 2012-2013 to account for customer growth, investment in generation upgrades and transmission and distribution facilities, and maintenance and replacements of the Company's natural gas systems. The Company plans to make \$1.2 billion in capital expenditures through December 31, 2016. *Id.* at 6.

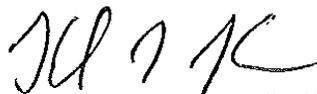
The Company says it will notify each customer of the proposed rate increases through a bill stuffer during a billing cycle, a news release, and an individual bill insert. *Id.* at 12.

#### **STAFF RECOMMENDATION**

Staff 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**

Should the Commission issue a Notice of Application and establish a 14-day deadline for intervention?



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Karl Klein  
Deputy Attorney General

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