

Idaho Public Utilities Commission

Case Nos. AVU-E-12-08 and AVU-G-12-07

February 8, 2013

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Settlement softens impact of proposed Avista electric, gas rates

Under a settlement proposed to the Idaho Public Utilities Commission, electric rates for Avista Utilities customers would increase **1.9 percent** but not until October 1. Avista originally proposed a 4.6 percent increase effective April 1.

The settlement, negotiated among several parties, also proposes to increase natural gas rates **4.9 percent** on April 1 instead of the company's original proposal of 7.2 percent. On Oct. 1, natural gas rates would increase another **0.3 percent**.

Representatives from the utility, along with commission staff, the Clearwater Paper Association, Idaho Forest Group and the Community Action Partnership Association of Idaho, (CAPAI) participated in the discussions that led to the proposed settlement, which still must be approved by the commission. All parties signed the settlement except for CAPAI, which is still gathering information on the proposed rate impacts before signing.

The proposed electric increase, delayed until October 1, is a 3.1 percent increase to base rates, raising Avista's annual revenue by \$7.8 million. However, customers would get a \$3.86 benefit due to an Avista settlement with the Bonneville Power Administration regarding BPA's use of Avista transmission lines over the last eight years. That credit will reduce the net increase in electric rates to an average **1.9 percent** if the settlement is approved. In total, Avista would be allowed a \$7.8 million increase in annual revenue, down from its original request of \$11.4 million.

On the gas side, a **4.9 percent** increase would be effective April 1 and 2 percent on October 1. However, the Oct. 1 increase is offset by a credit in the annual Purchased Gas Cost Adjustment that reduces the Oct. 1 net increase to **0.3 percent**.

If the increases were granted, the bill of an average residential electric customer who uses 930 kilowatt-hours per month would increase by about \$2 on Oct. 1. The gas increase for a residential customer who uses an average 60 therms per month would increase by about \$2.82 per month on April 1 and another 31 cents per month on October 1.

The proposed settlement states that Avista will not have base rates adjusted again until Jan. 1, 2015 at the earliest. (This does not include yearly tracking mechanisms such as the Power Cost Adjustments and the Purchased Gas Cost Adjustment, which can adjust rates up or down depending on water supply, fuel costs and wholesale market gas and electric prices.) The

settlement allows Avista an opportunity to earn up to 7.9 percent on Rate of Return and 9.8 percent Return on Equity.

A copy of the proposed settlement from the Commission's Web site is available at:

<http://tinyurl.com/aunwsd3>

The commission is taking public comment on the proposed settlement. Comments are accepted via e-mail by accessing the commission's homepage at www.puc.idaho.gov and clicking on "Comments & Questions About a Case." Fill in the case number (AVU-E-12-08) and enter your comments. Comments can also be mailed to P.O. Box 83720, Boise, ID 83720-0074 or faxed to (208) 334-3762.

Commission staff will be in north Idaho next week to conduct workshops for Avista customers on Feb. 12 at 7 p.m. at the Sandpoint Community Hall and on Feb. 13 at 7 p.m. in the Great Room of the 1912 Center in Moscow.

The public workshops will give customers an opportunity to hear a presentation from commission staff about how the commission processes a rate case and the specifics of Avista's request. Customers will also be able to ask questions and provide feedback to commission staff. The information provided at the workshop is not to be interpreted as either an endorsement or opposition to the company's request.

Later, on March 4 and 5, the three commissioners who decide the case will hear formal testimony from customers at public hearings, in Lewiston and Coeur d'Alene. Details about the location of those hearings will be announced soon.

The commission, by state law, cannot accept or deny a requested increase without first considering the evidence. State law requires that regulated utilities be allowed to recover their prudently incurred expenses and earn a reasonable rate of return, which is also set by the commission. The burden of proof is on the utility to demonstrate if additional expenses already incurred were needed to serve customers and, if so, were they prudently incurred. To read how a rate case is processed, go to the Commission's Website at www.puc.idaho.gov and click on the link, "**Why can't you tell them NO?**" under "Hot Links" in the upper right-hand corner.

The requested gas increase is due to the fixed costs of providing gas, such as maintenance to pipelines. Due to declining wholesale gas prices, the variable portion of gas rates has been decreasing for Avista customers. In October 2012, Avista electric customers received a 5.6 percent natural gas reduction and 3.4 percent electric rate decrease. Overall, gas rates declined by 12 percent during 2012.

Avista claims the electric and gas rate increases are necessary to expand and replace its aging utility infrastructure. About 70 percent of the requested electric increase and 48 percent of the gas increase are due to increases in plant investment, while the remainder is due to increases in

distribution, operations and maintenance and administrative expenses for both electric and gas operations. For example, the company replaces about 6,000 distribution poles each year. Other expense increases are related to hydroelectric plant relicensing, mercury emissions compliance and federal reliability requirements.

Avista serves about 123,000 electric and 75,000 natural gas customers in northern Idaho.

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