Office of the Secretary
Service Date
November 27, 2000

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION DBA AVISTA UTILITIES—WASHINGTON WATER POWER DIVISION (IDAHO) FOR APPROVAL OF REVISED ELECTRIC LINE EXTENSION SCHEDULE 51.	)	**CASE NO. AVU-E-00-1** **ORDER NO. 28562**

On February 28, 2000, Avista Corporation dba Avista Utilities—Washington Water Power Division (Avista) filed an Application with the Idaho Public Utilities Commission (Commission) requesting approval of proposed revisions to its electric Schedule 51 Line Extension, Conversion and Relocation tariff. The Company's filing is in response to Commission Order No. 28097 issued July 29, 1999, in Case No. WWP-E-98-11.

Avista states that it provided an informational letter in late December to approximately twenty residential developers that the Company works with which outlined the proposed changes to the line extension tariff.

On March 23, 2000, the Commission issued a Notice of Application and Modified Procedure in Case No. AVU-E-00-1. The deadline for filing written comments was May 5, 2000. The Commission Staff was the only party to file comments. The Company filed a reply on May 30. Also filed by way of reply was a letter from Shorewood Homes Inc. Based on its review of filed comments, the Commission scheduled and held a public hearing in this case on September 7, 2000.

The Commission has reviewed and considered the filings of record and transcript in Case No. AVU-E-00-1. The issues presented in this case and our related findings are reflected below.

Average Unit Costs

As reflected in the Company's Application and supporting testimony, the present Schedule 51 tariff incorporates the principle of average costing for the installation of facilities commonly used in extending electric service. Tr. p. 2. The tariff sets forth "Basic Costs", that are based on the average material and labor costs for the installation of these facilities, such as transformers and conductors, that are used consistently in the installation of electric line extensions. The Basic Costs have fixed and variable components, with the variable component stated on a cost-per-foot basis. Tr. p. 2. The present tariff also provides a list of "Exceptional Costs", such as trenching in rock-soil conditions, that are not included in the Basic Costs and that can materially increase the cost of a line extension project. Under the present tariff, all Exceptional Costs must be paid by the customer or developer. Tr. p. 8.

The Company is not proposing to change the conceptual structure of the Schedule 51 tariff. The present tariff, it states, is relatively easy to apply, fair and understandable, and has resulted in relatively few customer complaints. Tr. p. 9. The Basic Costs set forth in the tariff, however, have not been updated since 1990. Tr. p. 100. As part of the proposed tariff, the Company has updated all Basic Costs based on 1998 materials and labor costs. Tr. p. 9; Exh. 2, Sheets 51 M and N. As 1999 Basic Cost information is now available, the Company commits to file updated information in any "compliance tariffs" filed as a result of Commission Order in this case. Tr. pp. 9, 41.

Staff Position

Staff supports continued use of average unit costs for residential jobs provided the Company maintains a fairly extensive list of "exceptional costs" and is rigorous in assessing them. Tr. pp. 102-103. Staff recommends individual cost estimates for non-residential jobs because of the wide variety of circumstances that may be encountered. Tr. pp. 99, 104.

An average unit cost approach, Staff contends, has the advantage of simplicity and predictability. Tr. p. 103. An individual cost estimate approach (used by Idaho Power Company and PacifiCorp for all jobs) has the disadvantage of being difficult to administer; it precludes up front predictability; and it is often difficult to assess whether the cost estimate reflects a fair price. Tr. p. 104. Staff finds the average unit costs proposed by the Company to be acceptable. Tr. p. 105. Staff notes the importance of the Company abiding by the requirement to annually file updated average unit costs for Commission approval—over time, material prices change, labor rates increase and technology changes. Tr. p. 105.

Company Reply

Avista states that the Company updates its line extension average unit costs based on calendar year information. The Company requires three months to compile the data. The Company recommends an April 1 annual file date with the Commission for updated average cost information. Tr. p. 41.

Commission Findings:

The Commission finds the Company's continued use of average unit costs to be reasonable. The Commission finds it reasonable to require the Company to use 1999 Basic Cost information in its compliance tariffs. The Commission also finds reasonable the Company's proposal to update average cost information on an annual basis with an April 1 filing. The Company may continue to annually file an updated tariff reflecting changes in Basic Costs. As an alternative, the Commission is willing to entertain changes in the format of the tariff such that Basic Costs are not shown in the main body of the tariff but listed on a supplemental page instead.

Residential Developments

For residential developments the total Basic Cost is proposed to increase from $1,120 to $1,400 per lot. Of the total $280 increase, $130 represents an increase in Primary, Secondary and Transformer costs and $150 represents an increase in service line costs. As the developer is responsible for Primary, Secondary and Transformer costs, a cash deposit or credit instrument is required from developers for these costs until such time as the residents begin taking service. As Primary, Secondary and Transformer costs increase by $130 per lot under the proposed tariff, the developer deposit or credit instrument is also being increased $130 per lot, from $910 to $1,040. However, if the developer provides the ditching within the development, the deposit or credit instrument required will be only $760 per lot, reflecting Avista's average ditching cost savings of $280 per lot ($1,040 - $280 = $760). Tr. pp. 120-121.

Staff Position

Staff agrees with the Company's proposal to increase the total cost per lot from $1120 to $1400 (service cost plus Basic Cost). Staff also agrees with the Company's proposed change in the trenching credit/deposit. Tr. p. 121.

Staff notes that its investigation revealed relatively few instances where there were charges assessed for work outside the development. Staff suggests that the Company's practice in this area be closely monitored.

Commission Findings:

The Commission finds the proposed increase in service and Basic Cost to residential development lots to be reasonable. Avista shall use 1999 Basic Cost information in the compliance tariff filed in response to this Order, and shall update average cost information on an annual basis. The Commission also finds reasonable the Company's proposed change in the trenching credit/deposit requirement. It is the Commission's understanding that the Staff will continue to monitor the Company's practice for assessing charges performed outside residential developments.

Residential Allowance

As part of its review of its Schedule 51 tariff, the Company states that it examined the present level of the line extension allowances. An allowance is the amount of credit the customer receives against the estimated cost of the line extension based on future energy consumption and resulting margin to the Company. Tr. pp. 12-13. It is the amount the Company is willing to invest to extend service to a new customer. Tr. p. 14. If the estimated line extension cost exceeds the allowance, the customer is required to pay the excess cost in the form of a cash contribution (Contribution In Aid of Construction). Tr. p. 13. In the case of developments, the developer may provide a credit instrument in lieu of a cash payment and subsequent refund that is tied to the future build-out of the development. Tr. p. 8. The present level of the residential single family allowance is $1,000. The Company is proposing to increase that level to $1,300. Sheet 51 B, Exh. 2; Tr. p. 17. The proposed increase in the allowance of $300 approximates the increase in the Basic Costs of $280 per lot for residential developments. Tr. p. 17.

The Company's present allowance level of $1,000 was based on the average energy consumption of all residential electric customers (presently 12,441 kWhs/year – Tr. p. 18), a net margin that recovers the incremental cost of the line extension, and a first year rate of return equal to the Commission-authorized level in 1990. The derivation of the present allowance also assumes that all of the Company's costs are variable and will increase proportionately with the addition of a new customer, i.e., a fully distributed cost of service approach. Tr. p. 106.

The Company states that it no longer believes that a fully distributed cost of service approach is reasonable. It does not believe that all of the Company's costs will increase proportionately with the addition of new customers. Tr. pp. 16, 106-107. Rather than estimating the variability of each cost account, which it contends is virtually impossible to determine (Tr. p. 16), the Company employed an overall reasonableness test regarding the "contribution to system costs" resulting from the proposed allowance of $1,300. The Company performed a revenue requirement analysis assuming a line extension investment of $1,300 (equal to the proposed allowance), a required (levelized) rate of return based on the level authorized by the Commission in Case No. WWP-E-98-11, the Company's last general rate case, and an estimated annual gross margin received from the customer of $261. Tr. pp. 14-15, 107. The gross margin estimate is based on the estimated electric revenue from a typical customer using gas heat and water-heat (9000 kWhs/year) less the customers average production (power supply) cost from the Company's cost-of-service study filed in its general rate case. Tr. pp. 15, 107. Based on these assumptions, a new customer would provide a contribution to approximately 72% of system costs. Tr. p. 17. The result based on the proposed allowance level of $1,300 is that a new customer would contribute approximately 1.3¢ per kilowatt hour to system transmission and distribution costs, compared to an embedded average of approximately 2.7¢ per kilowatt hour. Tr. pp. 17, 107. Greater contribution from new customers would be realized should their electric usage approach the Company's present system average, 12,441 kWhs/year. Tr. pp. 18-19.

Staff Position

Staff believes that it is necessary to shift to new customers those costs that exceed the investment supportable by existing rates. Tr. p. 109. Staff contends that increasing allowances will cause upward pressure on rates and require subsidization of new customers by existing customers. Tr. p. 108.

Staff contends that the Company's investment in distribution/terminal facilities (transformer, meter & service drop) for each new customer should be equal to the embedded costs of the same facilities used to calculate rates. Costs in excess of embedded costs, Staff contends, should be paid through one-time capital contributions by the new customers. Tr. pp. 112-113. Based on assumptions and calculations set forth in Staff testimony (Tr. pp. 113-117), Staff recommends a residential customer allowance of $875 plus a meter. Tr. p. 117.

Staff notes that the Company's method for determining allowances uses a revenue requirement model. Tr. p. 117. Avista, Staff states, assumes that not all costs increase incrementally with the addition of a single new customer. Staff disagrees. Staff believes that all costs increase incrementally with the addition of a single new customer. Tr. p. 118.

Company Reply

The Company contends that Staff's embedded investment approach for determining the residential allowance is unreasonable. Historical or embedded distribution costs per customer have no direct relationship to present line extension costs. Additionally, the Company contends that Staff's approach fails to address incremental margin, or contribution to costs, produced by new customers in their allowance calculation. Tr. p. 21.

The Company's proposed allowance ($1300) is based on an analysis, it states, that estimates the incremental margin (revenue less energy cost) provided by a new customer, provides for the recovery of all incremental line extension costs, and provides for a significant contribution toward future system (non-line extension) cost increases. Tr. pp. 20, 23.

The Company disagrees with Staff's assertion that all Company system (non-line extension) costs (transmission, distribution, O&M, customer service, A&G expense) increase proportionately with the addition of new customers. It is impossible, the Company contends, to measure or predict what level of future system cost increases are due to the addition of new customers. Much of the future change in system costs, the Company maintains, will occur whether or not new customers are added. Tr. pp. 23-24.

The Company notes that the $1300 allowance proposed by Avista is still considerably less than the present allowance authorized for Idaho Power ($1926) or Utah Power ($1432). Tr. pp. 27-28; Exh. 106.

The Company further notes that the Commission in Order No. 26780 approving changes in Idaho Power's line extension tariff stated

> Recovery of those costs in excess of embedded costs must also be provided for and the impact on rates of existing customers is an important part of our consideration. We also recognize that requiring the payment of all costs above embedded investment from new customers could have severe economic effects.

Tr. p. 29.

If Staff's proposed allowance is approved, the Company contends that it may result in significant economic consequences to Avista in its Idaho service territory—in those areas where Avista competes with Kootenai Electric Cooperative. Kootenai, Avista contends, is able to offer more "flexible" line extension terms than Avista and does not require a cash deposit or credit instrument to insure build-out of the development. Any difference in the level of service provided by the Company to developers, the Company contends, will not outweigh the substantial amount of non-refundable cash payment required under the Staff's proposed residential allowance. Tr. pp. 29-33. If Staff's proposal is approved, the Company believes it will then be at a competitive disadvantage. Tr. p. 33.

Commission Findings:

We review the Company's line extension policy at a time when energy prices are rising and when the Company is seeking additional generation resources to serve its native load customers. Tr p. 57. Against this background, the Company proposes to increase the amount of its line extension allowance to approximate the increase in "Basic Cost" terminal facilities. The Company argues against setting the allowance amount at the embedded cost recommended by Staff. We note that the higher above embedded cost the allowance is set, the more promotional the allowance is and the greater the probability of a subsidy from existing customers. The Company in this case acknowledges that it has been faced with increases in its distribution, supply and transmission costs. Tr. pp. 82-83. The market price of energy this past summer in the Northwest reached unprecedented levels. Avista was required to go to market to remedy imbalances in its supply/demand at a cost much greater than its average cost of production. Tr. p. 57, 58. In proposing an increase in the amount of its allowance, the Company is seemingly asking the Commission to disregard the supply deficiency and resultant reliance on the market.

The Company notes that it has an obligation to serve. Tr. p. 58. The responsibility of the Commission is to ensure that rates are just, reasonable and nondiscriminatory. It is unreasonable to implement an allowance that may put increased pressure on the rates for all customers. There is no benefit to adding additional customers if their addition requires all rates to increase.

The Commission finds the Company's proposal in this case to increase the amount of its allowance to be unreasonable. While Staff's proposal has merit, we recognize that the Company is proposing a significant increase in its average unit costs. We therefore find it reasonable to leave the allowance at its present amount.

Other Proposed Schedule 51 Changes

Commercial/Industrial Extensions

Presently, the Company performs a customer-specific analysis to determine the cost and allowance associated with extending service to a commercial or industrial customer who uses over 72,000 kilowatt hours (kWh) per year. All commercial customers using less than

72,000 kWh hours per year now receive a fixed allowance of $1,300. This allowance of $1,300 was based on the average energy usage for all Commercial Schedule 11 customers and the 72,000 kWh hour level was based on the maximum annual usage for a customer taking service under Schedule 11. Based on an analysis similar to that performed for residential customers, an allowance level for a commercial customer using 72,000 kWh hours would be several times the present level of $1,300. Therefore, the Company is proposing that a customer specific analysis be performed on all commercial and industrial customers, using their estimated energy usage and the appropriate allowance per kilowatt hour depending on the rate schedule, in order to determine the allowance. The allowances for all rate schedules other than Residential Schedules 1 and 12 are stated on a per kilowatt basis and are being increased based on the present rates of those schedules and a financial analysis similar to that for Residential Schedule 1.

The line extension costs for commercial (Tr. pp. 37-39, 123) and industrial customers will be analyzed differently depending on whether single-phase or three-phase service is required. Basic Costs set forth in the tariff are based on single-phase service. For customers requiring three-phase service, the line extension cost will be based on the total estimated costs derived from internally published average costs. Tr. p. 124.

Staff Position

Staff supports the Company's proposal to compute an allowance based on a customer-specific analysis for all commercial and industrial customers using their estimated annual energy usage and the appropriate allowance per kilowatt hour for each rate schedule. Tr. p. 124. Staff contends however that the allowances per kilowatt proposed by Avista are too high. Staff's proposed allowances are based on the amount of embedded distribution investment per customer. For Schedules 11-12 (general service) customers, Staff recommends an allowance of $0.080/kWh of estimated annual load. For Schedules 21-22 (large general service) and 31 (pumping), because the computed allowances are very close, Staff recommends that the allowance for both classes be set at $0.060/kWh of estimated annual load. Tr. p. 125. Staff recommends that the proposed allowances for Schedules 11, 21 and 31 be explicitly shown in the line extension tariff.

Staff believes that the Basic Costs set forth in the tariff should include costs for both single-phase and three-phase service. Staff does not believe that it is acceptable to base three-phase extension costs on estimates derived from "internally published" average costs. Tr. p. 125.

For industrial customers, Schedule 25, Staff recommends that allowances be determined on a case-by-case basis. Tr. p. 125.

Company Reply

The difference in proposed allowances for new commercial and industrial customers (Schedules 11, 21, 31), the Company states, reflects the same difference in approach used by the Company and Staff to derive the residential allowance. The Company's proposed allowance, it states, provides for the recovery of all incremental energy and line extension costs and provides a substantial contribution (50%) toward future increases and system costs.

The Company states that it has no problem with including the allowances for Schedule 11, 21 and 31 in the line extension tariff. Tr. p. 40. The Company also agrees to show three-phase as well as single-phase Basic Costs in its tariff. Tr. pp. 40, 43.

Commission Findings:

The Commission notes that the positions of Staff and Company reflect the same difference in approach used by the Company and Staff to derive the residential allowance. There is agreement, however, that a customer-specific analysis should be used to calculate the allowance for non-residential customer classes. On a per kilowatt-hour basis, the allowance is the same for all customers in the class, but each individual customer's expected annual usage is multiplied by the per kilowatt-hour allowance to determine the total amount of the allowance.

For Schedule 11 (General Service) customers, Avista requests an increase in the allowance while Staff recommends a decrease. For the same reasons we are ordering no change in the allowance for residential customers, we also are ordering no change in the allowance for Schedule 11 customers.

While methods used by Avista and Staff differ, and the exact allowance amounts each party recommends are not the same, both Avista and Staff recommend an increase in the allowance for Large General Service (Schedule 21) and Pumping (Schedule 31) customers. We therefore are persuaded to order an increase in the allowances for both of these customer classes. We find the allowance recommended by Staff ($0.06 per kWh for both Schedule 21 and Schedule 31) to be reasonable.

Because they are individually unique, both in their energy usage and in the facilities needed to serve them, there is no disagreement that the allowance for industrial customers (Schedule 25) should be determined on a case-by-case basis. We find it reasonable to require the

Company to explicitly show the proposed allowances for Schedules 11, 21, and 31 in its line extension tariff. We also find it reasonable to require the Company to show three-phase as well as single-phase Basic Costs in its tariff.

Exceptional Costs/Customer-Requested Costs

Under the present tariff, a residential or small commercial customer or developer is required to pay "Exceptional Costs", costs associated with unusual materials or labor. Tr. p. 8. Exceptional Costs presently include items that may be necessary to install the extension, as well as items that may be requested by the customer but not necessary to install the extension. Tr. p. 10. Under the proposed tariff the Company has created a new cost category called "Customer-Requested Costs", "cost of unusual labor and/or materials requested by the customer but which are not necessary to construct the line extension based on the company's minimum design, construction and operating practices." The customer will be required to pay for all Customer-Requested Costs. Tr. pp. 10, 126; Exh. 2, Sheet 51 D. The reason for the proposed distinction between Exceptional Costs and Customer-Requested Costs is that the Company is proposing that to the extent the Allowance exceeds the Basic Costs, the residual Allowance can be applied against Exceptional Costs. Tr. p. 11.

Exceptional Costs still exist under the proposed tariff, however, they are limited to those costs necessary to construct the line extension but which are not reflected in the Basic Costs set forth under the tariff. Tr. p. 11; Exh. 2, Sheet 51 C. This proposed change, the Company states, will not have a significant effect on the amount of customer contributions required from single-party residential customers and developers. Tr. p. 11. For residential developments, the Basic Cost ($1,400) exceeds the allowance ($1,300), therefore, any Exceptional Costs will be paid by the developer, as well as any Customer-Requested Costs. With regard to single-party residential extensions, in nearly all instances the Basic Costs will exceed the allowance. Tr. p. 11. However, because of the significant increases in the allowance per kilowatt-hour for non-residential rate schedules, the allowance could cover all or part of any Exceptional Costs for commercial line extensions. Tr. pp. 126-127.

Staff Position

Staff has no objection to the Company's proposal to create a new category of costs called "Customer-Requested Costs." Tr. pp. 11, 127.

Commission Findings:

The Commission finds the Company's proposal to create a new category of costs called Customer-Requested Costs to be reasonable. We also find reasonable the Company's proposal to apply residual allowance amounts against Exceptional Costs.

Miscellaneous Proposed Charges

Under the present tariff, no allowance is provided to customers with estimated usage of less than 4800 kilowatt hours per year. Those customers must pay the entire cost of the line extension. The rationale used to establish the present minimum use level of 4800 kWhs per year is that the margin per kilowatt hour provided under Residential Schedule 1 must at least recover the cost of providing service from the primary or secondary line to the residence. Using the proposed average service cost of $360 and the margin from Schedule 1, a minimum annual usage amount of 2500 kilowatt hours would provide recovery of the service cost. Tr. p. 128.

The residential allowance for dwellings which have more than four units or apartments is proposed to increase from $600 to $780 per unit. The proposed increase in the allowance for these dwellings is proportional to the Company proposed increase in the allowance for residential dwellings with less than four units ($1,000 to $1,300). Tr. pp. 35-36, 129.

Lastly, the Company is proposing a revision under the "Conversions and Relocations" section of the tariff. The present tariff requires a customer requesting a Conversion or Relocation of facilities to pay both the cost of the new facilities plus the remaining value of the existing facilities. As the revenue received from the customer will continue to pay for the cost of existing facilities over time, they should only be charged for the cost of the new facilities. Therefore, the provision for charging the customer for the remaining value of the existing facilities has been deleted. Tr. pp. 39, 130.

Staff Position

Staff recommends approval of the Company's proposal to reduce from 4800 kWh to 2500 kWh, the minimum annual usage amount for residential customers to be eligible for a line extension allowance. Tr. pp. 128-129.

Staff recommends that the residential allowance for dwellings having more than four units (apartments) be decreased from $600 to $525. Tr. pp. 35, 130. This is consistent with the Staff position for other residential customers.

The Company notes that both Staff's and the Company's proposed allowances are based on the ratio of their proposed residential single-family allowance to the Company's existing single-family allowance.

Staff recommends approval of the Company's request to revise the "Conversions and Relocations" section of the tariff to relieve customers from paying the cost of new facilities plus the remaining value of existing facilities. Tr. pp. 130-131.

Commission Findings:

We find the Company's proposal to reduce the annual minimum usage level for allowance from 4800 kWhs to 2500 kWhs to be reasonable.

For reasons previously expressed, the Commission finds that there should be no change in the existing allowance for dwellings with more than four units or apartments.

We find the Company's proposal to delete the charge for the remaining value of existing facilities after a conversion to be reasonable.

CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction over Avista Corporation dba Avista Utilities—Washington Water Power Division (Idaho), an electric utility, and its Application in Case No. AVU-E-00-1 pursuant to the authority and power granted under Title 61 of the Idaho Code and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq*.

O R D E R

In consideration of the foregoing and as more particularly described and qualified above, IT IS HEREBY ORDERED and the Commission does hereby authorize revision of Avista's electric Schedule 51 Line Extension, Conversion and Relocation tariff. The Company is directed to file compliance tariffs with the Commission Secretary.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this day of November 2000.

DENNIS S. HANSEN, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

PAUL KJELLANDER, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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