

DECISION MEMORANDUM

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

FROM: JOHN HAMMOND

DATE: FEBRUARY 20, 2004

**RE: IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION DBA
AVISTA UTILITIES FOR AUTHORITY TO INCREASE ITS BASE RATES AND
CHARGES FOR ELECTRIC AND NATURAL GAS SERVICE. CASE NOS.
AVU-E-04-1 AND AVU-G-04-1.**

On February 6, 2004, Avista Corporation dba Avista Utilities filed an Application with the Commission for authority to increase the Company's general rates for electric and natural gas service by averages of 24.1% and 9.2%, respectively. If approved, Company revenues for electric base retail rates would increase by \$35.2 million annually. However, Avista states that in combination with a proposed reduction in its current Power Cost Adjustment (PCA) surcharge rate the Company is actually requesting a net electric rate increase of \$18.9 million or 11.0%. Furthermore, if the Application is approved Company revenues for natural gas service would increase by \$4.7 million annually. The Company requests Commission authority to increase its rates and charges for electric and natural gas service in the State of Idaho on and after March 10, 2004.

THE APPLICATION

The Company's Application states that its existing base rates and charges for electric service were approved as a result of the Commission final Order No. 28097, dated July 29, 1999 in Case No. WWP-E-98-11. *See also* Avista Utilities Tariff No. 28. Avista contends its existing base rates and charges for natural gas service were approved as a result of Commission final Order No. 22974, dated February 12, 1990 in Case No. WWP-G-88-5. *See also* Avista Utilities Tariff No. 27. The Company contends its present electric and natural gas rates will not produce sufficient revenue to provide operating income required to allow it the opportunity to earn the 9.82% rate of return,

including a 44.3% equity ratio and an 11.5% return on equity. Accordingly, Avista alleges that unless it is authorized to increase rates as requested, the Company's rates will not be fair, just and reasonable and it will not have the opportunity to realize a fair rate of return on its investment. Avista states the evidence in support of its need for increased electric and natural gas rates is based on a 2002 test year and is presented on an average basis. In addition, because the Company provides utility service in states other than Idaho a jurisdictional separation of all investments, revenues and expenses allocated or assigned in whole or in part to the Idaho utility business regulated by this Commission are described in its filing.

Avista contends its need for relief regarding its electric service operations is driven primarily by: 1) the addition of significant new generating capabilities; 2) a reduction in wholesale sales revenue; 3) increased fuel costs for thermal generation, primarily natural gas; 4) a decline in electric use per customer; and 5) record low hydro-electric conditions and unprecedented high wholesale market prices, which have resulted in credit ratings below investment grade and increased financing costs. In justifying its proposed increase in natural gas service rates Avista contends its need for relief is driven primarily by: 1) the decline in natural gas usage by customers; 2) the growth in the number of natural gas customers; and 3) the general increase in expenses over the past fourteen years.

The charts below shows the averages of all rate components as proposed by Avista for certain customer groups taking electric or natural gas service from the Company.

Proposed Electric Rate Increase

Customer Group	Current Rates Average Rates (cents/kWh) ⁽¹⁾	Proposed Average Base Rates (cents/kWh) ⁽¹⁾	Overall Percentage Increase
Residential (Sch. 1)	6.08	6.90	13.5%
General Service (Sch. 11)	8.63	9.38	8.7%
Large General Service (Sch. 21)	6.18	6.81	10.1%
Extra Large General Service (Sch. 25)	4.07	4.67	15.0%
Pumping Service (Sch. 31)	6.13	6.87	12.1%

⁽¹⁾ Includes all Company proposed adjustments: Schedule 59-Residential Exchange Credit, Schedule 65-Centralia Credit, Schedule 66-PCA Surcharge & Schedule 91 - DSM Rider

Proposed Natural Gas Rate Increase

Customer Group	Current Rates Average Rates (cents/Therm) ⁽¹⁾	Proposed Average Base Rates (cents/Therm) ⁽¹⁾	Overall Percentage Increase
General Service (Sch. 101)	78.69	86.56	10.0%
Large General Service (Sch. 111)	69.08	73.64	6.6%
Large Gen. Svs High Load Factor (Sch. 121)	64.57	67.03	3.8%
Interruptible Service (Sch. 131)	55.72	57.60	3.4%
Transportation Service (Sch. 146) ⁽²⁾	10.57	12.50	18.2%

⁽¹⁾ Includes Purchase Adjustment Schedule 150/Excludes other rate adjustments

⁽²⁾ Average increase in transporter's total gas bill assuming 50 cents per therm gas delivered to Avista System
1.93 cents/60.574 cents (present bill) = 3.2% increase.

Service and Charges for Electric and Natural Gas Service

The service charge is designed to recover a portion of the costs associated with providing electrical and natural gas service such as meters, distribution facilities and billing services. Avista has proposed to increase the monthly, basic customer service charge for electric service from \$4.00 to \$5.00 per month and from \$3.28 to \$5.00 for natural gas service. The Company has also proposed changes to service charges or monthly minimum charges for certain other schedules for electric and natural gas service.

Avista Utilities Schedules 11, 21 and 25

In its Application the Company proposes to add an energy usage rate block to each of its electric general service schedules (Schedules 11, 21 and 25), whereby the larger customers served under those schedules would pay a lower incremental energy rate for usage beyond a certain level.

Potlatch

Avista is also proposing changes to its present Schedule 25 rate structure that will result in Potlatch paying an average rate per kWh that is lower than the average rate(s) paid by other Schedule 25 customers.

Issues Deferred from the 2003 Power Cost Adjustment (PCA) Proceeding

Avista also addresses issues surrounding certain gas supply contracts related to Coyote Springs II that the Commission deferred consideration of in the Company's 2003 PCA proceeding until it filed a general rate proceeding. See Order No. 29377, Case No. AVU-E-03-6.

Advanced Meter Reading (AMR) Program in Idaho

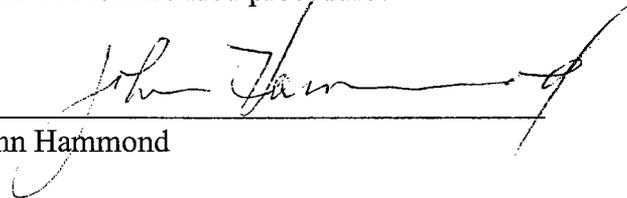
Through its Application the Company is requesting approval of certain accounting and ratemaking treatment related to its proposal to implement an AMR program in Idaho. Avista plans to install meter upgrades to Idaho electric and natural gas meters over a four-year period beginning in 2005 at a cost of approximately \$16.3 million. The Company stated that it does not seek an increase in rates at this time for any AMR costs.

COMMISSION DECISION

Based upon its review of the Application and Idaho law, Staff recommends that the Commission:

- Issue a Notice of Application;
- Issue a Notice of Intervention Deadline. Staff recommends that the intervention deadline be set for Friday, March 12, 2004;
- Suspend the proposed, permanent rates for period of 30 days plus five months from the March 10, 2003 effective date, or until such time as the Commission enters an Order accepting, rejecting or modifying the Company's request pursuant to *Idaho Code* § 61-622; and
- Set a Monday, March 15, 2004, prehearing/scheduling conference to identify intervenors, to discuss the procedural treatment of PCA – Coyote Springs II issues, to establish hearing dates and deadlines for the filing of testimony.

Does the Commission agree with Staff's recommended procedure?



John Hammond

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