

## DECISION MEMORANDUM

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

**FROM:** SCOTT WOODBURY  
DEPUTY ATTORNEY GENERAL

**DATE:** FEBRUARY 2, 2009

**SUBJECT:** CASE NOS. AVU-E-09-01/AVU-G-09-01 (Avista)  
GENERAL RATE CASE – ELECTRIC/GAS

On January 23, 2009, Avista Corporation dba Avista Utilities (Avista; Company) filed an Application with the Idaho Public Utilities Commission (Commission) for authority to increase the Company's general rates for electric and natural gas service in Idaho by averages of 12.8% and 3.0%, respectively. As part of the filing, the Company also proposes to decrease the current tariff Schedule 66 Power Cost Adjustment (PCA)<sup>1</sup> surcharge by \$12.3 million, or 5%, for an overall net electric rate increase of 7.8%. If approved, the Company revenues for electric base retail rates would increase by \$31.2 million annually; Company revenues for natural gas service would increase by \$2.7 million annually. The Company requests an effective date of February 23, 2009 for its proposed electric/gas rate increase.

### **Electricity**

Avista serves 121,000 electric customers in Idaho. Under the Company's net rate proposal (rate case and PCA adjustment), an average residential electric customer (Schedule 1) using 982 kilowatt hours of electricity per month would see a \$6.71 per month increase or 8.6% for a revised monthly bill of \$85.18. This includes a Company-proposed increase in the basic monthly customer service charge from \$4.60 to \$5.00. Other electric customers would see an increase between 5.67% and 8.85%.

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<sup>1</sup> The Company's PCA mechanism is used to track changes in revenues and costs associated with variations in hydroelectric generation, secondary prices, thermal fuel costs, and changes in power contract revenues and expenses.

The proposed revenue increase for electric service requested in this case, the Company states, is driven primarily by increased power supply costs, capital investments in upgrading aging infrastructure to increase capacity and reliability, and litigation and relicensing costs for Avista's Spokane River Hydropower Projects and Lake Coeur d'Alene.

Since inception of the PCA, annual deviations in normalized power supply costs have been shared 90%/10% by customers and Company shareholders. As part of the filing, the Company proposes to revise the PCA methodology sharing mechanism from 90%/10% to 95%/5%.

### **Natural Gas**

Avista serves 93,000 natural gas customers in Idaho. Under the Company's rate proposal, an average residential natural gas customer (Schedule 101) who uses 66 therms per month would see a \$2.56 increase or 3.2%, for a revised monthly bill of \$81.94. This includes a proposed increase in the monthly basic customer service charge from \$4.00 to \$4.25. Larger commercial natural gas customers would see increases ranging from 1.7% for interruptible service Schedules 131 and 132 to 2.5% for firm large general service Schedules 111 and 112. Transportation service for customer-owned gas under Schedule 146 (excluding gas cost) will increase under the Company's proposal by 10.9%.

The proposed rate change for natural gas customers, the Company states, does not reflect changes in the cost of natural gas purchased by Avista to serve customers. Changes in the cost of natural gas are reflected in annual Purchased Gas Cost Adjustments (PGA).

Driving the natural gas rate request in this case are increased operating costs and increased capital investment necessary to provide natural gas service to customers.

Evidence in support of the Company's need for a rate increase for electric and natural gas is based on a 12-month ended September 30, 2008 test year. The Company proposes an average rate of return on rate base of 8.80%, with a 50.00% common equity ratio and a 11.0% return on equity. 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 return on its investment.

The Company's base rates and charges for electric and natural gas service were last adjusted in 2008 (Case Nos. AVU-E-08-01/AVU-G-08-1, Order No. 30647). The Company's

electric PCA was last adjusted in 2008 (Case No. AVU-E-08-05, Order No. 30645). The Company's gas PGA was last adjusted in 2008 (Case No. AVU-G-08-03, Order No. 30646).

### **COMMISSION DECISION**

Avista has filed a combined general rate case for its electric and natural gas service in Idaho. 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 February 23, 2009 effective date (*Idaho Code* §§ 61-622 and 61-623). Staff further recommends that the Commission issue a Notice of Application and establish an intervention deadline. Staff will recommend further procedure as the case develops. Does the Commission agree with Staff's recommended procedure?



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Scott D. Woodbury  
Deputy Attorney General

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