Idaho Public Utilities Commission

Case Nos. AVU-E-12-08 and AVU-G-12-07, Order No. 32671
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Commission begins processing Avista rate case

Parties seeking to intervene in the Avista Utilities rate case have until Nov. 13 to file at the Idaho Public Utilities Commission. Parties representing customer groups intervene for the purpose of presenting testimony and cross-examining witnesses.

Parties intervening as of today include the Idaho Conservation League, Clearwater Paper and the Idaho Forest Group. Avista customers not representing customer groups will also be able to participate in the case by filing written comments and attending public workshops and testifying at formal hearings to be announced at a later date.

Avista, which serves 123,000 electric and 75,000 natural gas customers in northern Idaho, is seeking an average 4.6 percent increase in electric rates and a 7.3 percent to natural gas rates effective April 1, 2013.

If the increases were granted in full, the bill of an average residential electric customer who uses 930 kilowatt-hours per month would increase by $4.20 to $82.89. The gas increase for a residential customer who uses an average 60 therms per month would increase by about $4.12 per month to about $56.67.

The company seeks to increase its annual revenue by $11.4 million on the electric side and $4.6 million on the gas side. Avista is requesting an 8.46 percent rate of return and a 10.9 percent Return on Equity.

The commission's staff of auditors, engineers and attorneys will now undertake an approximate six-month investigation of the utility's application. The commission, by state law, cannot accept or deny the 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 established 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. Commission rulings can be appealed to the state Supreme Court by either the utility or customer groups.

Avista claims the increases are necessary to expand and replace its aging utility infrastructure and meet its legal obligation to reliably serve customers. 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.

Investment in facilities is growing at a faster pace than retail sales, according to testimony filed by Avista CEO Scott Morris.

Morris said Avista reduced its 2012 capital budget by $19 million to mitigate the impact of rate increases, but the company cannot reduce spending too much without jeopardizing reliability of service to customers.

"We have heard comments from some of our customers to the effect that Avista should cut its costs, and 'tighten its belt' like other businesses are doing in these difficult economic circumstances," Morris said. "But, at the same time, we are not like other businesses. Without the obligation to serve, we could consider refusing to hook up new customers, because it could avoid an increase in costs to our existing customers. Without an obligation to serve, we could consider no longer serving some of the more remote, most costly areas to provide service. Unregulated businesses have the opportunity to shut down aging facilities or under-producing retail outlets, eliminate product lines and cut back on investment and maintenance. We do not," he said.

Avista reduced its Defined Benefit Plan benefit formula by 28 percent for all new hires since Jan. 1, 2011. No long-term incentive compensation for executives is included in customer rates and only 42 percent of total executive salaries are included in rates, according to Morris' testimony.

Customers can read Morris' entire testimony at:

http://www.puc.idaho.gov/internet/cases/elec/AVU/AVUE1208/company/20121011MORRIS%20DI.PDF

Testimony from other company officials is also available on the commission's Web site. Testimony from other parties as well as commission staff will be added as the case progresses.

Two months ago, Avista electric customers received a 5.6 percent natural gas reduction and 3.4 percent electric rate decrease due to decreases in the variable components of electric rates.

Avista's last major rate case resulted in a net 2.4 percent decrease to electric customers on Oct. 1, 2011. There was a base rate increase of 1.1 percent to electric rates and 1.6 percent to gas rates. However, the electric rate adjustment ended up being a decrease because of a larger reduction in the annual Power Cost Adjustment.

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