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BEFORE THE WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION

DOCKET NO. UE-01\_\_\_\_\_

DIRECT TESTIMONY OF SCOTT L. MORRIS  
REPRESENTING AVISTA CORPORATION

Exhibit T-\_\_\_\_\_ (SLM-T)

1 **I. INTRODUCTION**

2 Q. Please state your name, employer and business address?

3 A. My name is Scott L. Morris and I am employed as the President of Avista  
4 Utilities, an operating division of Avista Corporation, at 1411 East Mission Avenue,  
5 Spokane, Washington.

6 Q. Would you briefly describe your educational background and professional  
7 experience?

8 A. I am a graduate of Gonzaga University with a bachelors degree and a  
9 master's degree in organizational leadership. I have also attended the Kidder Peabody  
10 School of Financial Management.

11 Since I joined the Company in 1981, I have served in a number of roles including  
12 customer service manager. In 1991, I was promoted to general manager for Avista's  
13 Oregon and California natural gas utility business. I was appointed President and General  
14 Manager of Avista Utilities in August 2000.

15 I am a member of the Spokane Area Economic Development Council board of  
16 directors, a member of the Gonzaga University board of regents, a director of the  
17 Washington Roundtable, a member of the Spokane Area Chamber of Commerce board of  
18 trustees and its Executive Committee, and a member of the Economic Development  
19 Council's Executive Committee. In 1999, I was appointed by Oregon Governor John  
20 Kitzhaber as a board member of the Oregon Economic and Community Development  
21 Commission. I served as a member of the board of directors and as board president of  
22 Southern Oregon Regional Economic Development Inc. I served as a director and board  
23 president of the Medford/Jackson County Chamber of Commerce. I was a board member  
24

1 and served as board president of the Providence Community Health Foundation. I have also  
2 served as a member of the board of directors and a board president for the Medford YMCA,  
3 as a member of the board for the Oregon Shakespeare Festival, and the Rogue Valley  
4 College Regional Advisory Board.

5 Q. What is the scope of your testimony?

6 A. My testimony will provide an overview of Avista's utility operations. I will  
7 summarize the major factors driving the Company's need for general rate relief. My  
8 testimony explains the cost controls implemented by Avista in response to the difficult  
9 financial situation that the Company continues to face. Finally, I will discuss Avista's  
10 customer support programs that are in place to assist our customers.

11 Q. Are you sponsoring exhibits in this proceeding?

12 A. Yes. I am sponsoring Exhibit No. \_\_\_\_ (SLM-1), as marked for  
13 identification, which was prepared under my direction.

14

15 **II. OVERVIEW OF AVISTA UTILITIES**

16 Q. Please briefly describe Avista Utilities.

17 A. Headquartered in Spokane, Avista provides electric and natural gas service  
18 within a 26,000 square mile area of eastern Washington and northern Idaho. Gas  
19 distribution service is also provided in northeast and southwest Oregon and in the South  
20 Lake Tahoe region of California. A map showing the Company's electric and natural gas  
21 service areas is provided on page 1 of Exhibit \_\_\_\_ (SLM-1). This map also shows the  
22 location of Avista's hydroelectric and thermal generating projects, with the exception of the  
23 Colstrip coal-fired project located in eastern Montana.

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1 As of December 31, 2000, Avista Utilities had total assets of approximately \$2.1  
2 billion, with retail revenues in year 2000 of \$394.5 million electric and \$205.9 million  
3 natural gas. As of October 2001, the utility had 1,099 full-time and 41 part-time employees.

4 Q. Please describe Avista's electric utility operations.

5 A. Avista provides retail electric service to approximately 313,350 customers,  
6 with 203,845 in Washington. The area's principle industries include agriculture, mining,  
7 and forestry, as well as health care, electronic and other manufacturing, and tourism.  
8 Approximately 40 percent of year 2000 retail electric revenues were from residential  
9 customers, with 38 percent from commercial and 22 percent from industrial users and street  
10 lighting. During 2000, Avista sold approximately 8.2 billion kilowatt-hours (kWh) to its  
11 retail customers. Of this total, 5.0 billion kWh were sold to Washington customers and 3.2  
12 billion kWh to Idaho customers.

13 Avista's generating facilities, totaling approximately 1,480 megawatts (MW),  
14 include 8 hydroelectric generating stations (973 MW) located in Idaho, Montana, and  
15 Washington. In addition, Avista holds a 15 percent interest in the Colstrip coal-fired plants  
16 (222 MW) and has three natural gas-fired facilities (236 MW—Rathdrum, Northeast, and  
17 Boulder Park) used primarily to meet peak demand. Avista also owns the Kettle Falls  
18 wood-waste-fired plant with a generating capacity of approximately 49 MW. The Company  
19 is currently constructing Coyote Springs II, a natural-gas combined cycle combustion  
20 turbine project near Boardman, Oregon. Avista owns 50% of this project, which is  
21 expected to begin commercial operation in June 2002.

22 Under normal streamflow conditions, over half of Avista's retail load requirements  
23 are met with hydroelectric generation. The low-cost energy from Avista's hydroelectric  
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1 generation is one of the primary reasons Avista has been a low-cost provider of electricity to  
2 its customers. The Company's customers have received significant benefits from Avista's  
3 low-cost hydroelectric resource base for many years.

4 This low-cost hydroelectric resource base, however, carries with it a significant  
5 amount of variability. Hydroelectric generation from one year to the next can be  
6 significantly higher or lower than the prior year. This variability for Avista, as a hydro-  
7 based utility, amplifies substantially the exposure to purchase replacement power in a  
8 volatile wholesale market, as compared to a utility with less reliance on hydroelectric  
9 resources. Because of this reliance on hydroelectric generation in a volatile wholesale  
10 market, a PCA is more important now for Avista than ever before. Mr. Norwood discusses  
11 the variability of costs associated with Avista's reliance on hydroelectric generation, and  
12 explains the Company's request in this filing for a power cost adjustment (PCA)  
13 mechanism. Mr. Lafferty provides additional information regarding Avista's overall  
14 resource base, resource planning, and resource operations.

### 16 III. AVISTA'S REQUEST FOR RELIEF

17 Q. Please provide an overview of Avista's current situation and the relief  
18 requested by the Company in this filing?

19 A. The Company is currently facing one of its greatest financial challenges in its  
20 112-year history. As the Commission is aware, Avista's hydroelectric generating capability  
21 has been adversely impacted by the lowest streamflows on record. To make up for this  
22 reduced hydro power availability, the Company has purchased power in wholesale markets  
23 to serve customers loads at costs significantly above those recovered in rates from  
24

1 customers. This purchase of high-cost power, in turn, has put extreme pressure on the  
2 Company's ability to raise capital and fund basic operating functions at reasonable costs.  
3 The Company's financial ratios are below the levels necessary to support an investment  
4 grade credit rating, and it has been necessary for Avista to make substantial cuts to its  
5 capital and operation and maintenance ("O&M") expenditures. These cuts are not  
6 sustainable in the long-term, and will compromise the Company's ability to provide reliable  
7 service if the cuts were to remain in place for an extended period of time. Company  
8 witnesses Mr. Eliassen and Mr. Peterson will describe in more detail the financial pressures  
9 facing Avista in 2001 and 2002.

10 Mr. Ely has provided a summary of the Company's specific requests for relief, as  
11 listed below, and I will not revisit each of these components in my testimony.

12 **Immediate Relief Requested**

- 13 • Prompt prudence ruling on the balance of deferred power costs through September 30,  
14 2001 (subject of Docket No. UE-011514).  
15 • Interim rate relief of 12.4% over base rates, effective March 15, 2002.  
16 • Temporary deferred accounting, effective for the period January 1, 2002 to the end of this  
17 general rate case.

18 **Relief Effective At The Conclusion Of The General Rate Case**

- 19 • Reset base retail rates to reflect a 22.5% increase, effective at the end of this general rate  
20 case (primarily due to plant additions and increased cost of capital).  
21 • Reset the surcharge rate to reflect a 14.9% rate increase to recover deferred power costs  
22 over a 5-year period, effective at the end of this general rate case.  
23 • Adoption of a power cost adjustment mechanism, effective at the end of this general rate  
24 case.

I will focus primarily on Avista's request for general rate relief which is designed to  
provide recovery of the Company's ongoing costs to serve its electric retail customers. In  
this filing, the Company has requested an overall increase in base retail rates of \$53.2  
million, or 22.5% to be effective at the conclusion of this case.

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Q. What are the major elements of the requested increase?

A. Although there are a number of increases and decreases in revenue, expense and rate base items, there are couple of major components that drive the requested 22.5% general increase. One of these components is the addition of new generating facilities, such as the Coyote Springs II project scheduled to come online in June 2002, and the Boulder Park project that is planned to enter service in the first quarter of 2002. The Boulder Park project includes 25 MW of natural gas-fired reciprocating engines located in the Spokane valley. The costs associated with these projects include the proposed rate base treatment of the investment, and recovery of the O&M and fuel costs. Mr. Lafferty provides additional details related to the projects themselves.

A second major component is the increase in the cost of capital for the Company. Mr. Eliassen and Mr. Peterson discuss in detail the increased cost of debt financing that the Company is experiencing. In addition, Mr. Avera testifies to the required return on equity necessary for Avista in the current utility environment. The increase in Avista's cost of capital translates directly into increased retail electric rates.

Mr. Falkner testifies to these and other adjustments in the Company's revenue requirement included in this case.

Q. What is the Company's overall rate of return, and the rate of return requested in this filing?

A. The Company's pro forma rate of return under present rates is 5.75%, which is well below Avista's currently authorized rate of return is 9.03%. This 9.03% overall return includes an 11.16% return on equity. In this filing, Avista is requesting an overall rate of return of 10.39%, with a 12.75% return on equity. Mr. Avera testifies to the

1 proposed rate of return components.

2 Q. Are you concerned that an overall increase in the proposed revenue  
3 requirement is excessive?

4 A. Many utilities in the region have increased their retail rates, some by over  
5 50%, due to circumstances similar to those facing Avista. I believe customers are generally  
6 aware of the underlying reasons for the increased costs of electric service.

7 As the Avista continues to work its way through the difficult financial challenges,  
8 the Company is attempting to balance the level of rate increases to its retail customers, with  
9 the need to immediately improve the financial health of the Company. As Mr. Falkner  
10 explains in his testimony, the Company's revenue requirement calculations would support  
11 an additional increase of 19%, which would result in an overall increase over base rates of  
12 44%. In our filing, we have limited the additional increase to 12.4%, and a total increase  
13 over base rates of 37.4%, in order to mitigate somewhat the overall rate impacts to  
14 customers. Mr. Eliassen and Mr. Peterson discuss in detail the immediate need to improve  
15 the Company's financial condition.

16 Avista's Washington electric customers currently experience and will continue to  
17 experience retail rates among the lowest of peer utilities in the Pacific Northwest. Even  
18 with the additional rate increase proposed in this filing, Avista's rates will remain  
19 competitive with other Pacific Northwest utilities. Page 2 of Exhibit \_\_ (SLM-1) shows that  
20 the Company's rates, including the requested rate relief in this proceeding, will be the third  
21 lowest cost electric supplier among the thirteen peer utilities. Avista's placement on this  
22 list varies by customer usage; however, the Company remains near the lower end of costs  
23 for residential electric customers.

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#### IV. EFFORTS TO CONTROL COSTS

Q. What actions has the Company taken to control its O&M expenses?

A. The Company has implemented a top to bottom reduction in costs. Aggressive and immediate budget cuts have been instituted throughout the Company to conserve cash. While the budget cuts, in the short-term, will not jeopardize system reliability or safety, they are not sustainable over the longer term.

For example, the Company's contractor services expenditures are down \$1 million (57%). This was accomplished by postponing work in some areas and covering essential contractor services where possible with in house personnel. A hiring freeze was instituted in August 2001 and the Company has made reductions to the number of full-time employees, in addition to the reduction of contract labor.

Vehicle replacements have been postponed and the Company will no longer provide vehicles to construction managers and other employees. In addition, we will not replace vehicles in our general use pool. This has led to over \$1 million in cancelled purchases in 2001, and a reduction of \$2.5 million in the 2002 budget.

The Company, however, is exercising discretion to avoid cuts that could have long-term negative consequences. One example is the apprenticeship training program. A temporary disruption in this program could cause the Company to not have adequately trained employees to support reliable service.

These are just some of the short-term cost cuts that have been implemented by the Company. Although the Company has historically run its operations with attention to minimizing expense while providing quality service, the level of cost cuts that are currently

1 in place cannot, and should not, be sustained over an extended period of time.

2 Q. What adjustments did the Company make to its near-term capital budget?

3 A. The Company has reduced its capital budget in 2002 to a level below its  
4 depreciation. The Company's capital budget has been reduced by over \$30 million. As  
5 with the O&M expenses discussed earlier, these budget cuts are not sustainable long-term.  
6 The costs are merely deferred, for the most part. One example of a capital budget cut is  
7 deferring the planned maintenance and upgrade of Unit #2 of the Cabinet Gorge  
8 hydroelectric facility to a future year. The Company is able to temporarily delay this work  
9 in the near-term, but it cannot be delayed indefinitely.

10 Page 3 of Exhibit \_\_\_\_ (SLM-1) shows the Company's capital expenditures over the  
11 past three years and the 2002 budgeted levels. This chart shows that the short-term capital  
12 budget will decrease by 35% (compared to the 2001 capital budget excluding small  
13 generation costs). Again, this capital expenditure reduction is temporary and is not  
14 sustainable.

15

## 16 V. CUSTOMER SUPPORT PROGRAMS

17 Q. Please explain the programs the Company has in place to mitigate some of  
18 the impacts its customers?

19 A. Avista Utilities offers a low-income rate assistance program, energy  
20 efficiency programs, Project Share for emergency assistance to customers, level pay plans,  
21 and payment arrangements. The Company is fortunate to have in place existing programs  
22 that will continue to proactively address customer needs.

23 Q. What low-income rate assistance is provided by Avista?

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1           A.     The low-income rate assistance plan (“LIRAP”) collects approximately \$3  
2 million per year from a 0.79% distribution charge on electric and natural gas service. These  
3 funds are distributed by community action agencies in a manner similar to the Federal and  
4 State-sponsored Low Income Heating Energy Assistance Program (“LIHEAP”). Avista’s  
5 LIRAP almost doubles the reach of the LIHEAP funds.

6           The Company, with the assistance of community action agencies and the approval of  
7 the Commission, was able to fashion a program, LIRAP, that provides for financial  
8 assistance to those members of our community least able to handle this rate increase. I am  
9 pleased that this relatively new program, which started in May 2001, is fully in place as  
10 customers face increased energy bills.

11           Q.     Please describe Avista’s conservation, or demand-side management  
12 (“DSM”) programs.

13           A.     In 1995, the Commission approved Avista’s DSM Tariff Rider, a 1.95%  
14 distribution charge to fund energy efficiency. This was the first funding mechanism for  
15 conservation adopted in North America. The tariff rider has allowed the consistent delivery  
16 of energy efficiency services for six years, during a time period when some utilities across  
17 the country were zeroing out their programs. The Company offers conservation services to  
18 residential, commercial, and industrial customers. Company witness Bruce Folsom will  
19 provide more details about the Company’s programs.

20           With a DSM infrastructure in place, the Company was able to quickly ramp up its  
21 then-existing offerings this past summer to get more conservation into our customers’  
22 homes and businesses to reduce energy usage at a time of very high wholesale energy  
23 prices.

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Q. What is Project Share?

A. Project Share is a voluntary contribution option allowing customers to include extra payments that are distributed through community action agencies to customers in need. Avista has consistently had relatively high per-customer contributions when compared to other utilities with Project Share programs. Approximately \$330,000 was donated by Avista customers last year. The Company contributed an additional \$125,000 in 2001 to Project Share. Avista has actively communicated a request for contributions to its customers. The Company recently (June 3, 2001) won the following awards at the National Fuel Funds Network Media Fair (i.e., national Project Share awards):

- 1) First Place for Direct Mail Letter, In-House Produced;
- 2) Second Place for Published News/Feature Article, Professionally Produced; and
- 3) Third Place for Paid TV Commercial, Professionally Produced.

Q. What is the Company's level bill payment program?

A. Comfort Level Billing is the Company's option for customers to pay the same bill amount each month of the year. This allows customers to more easily budget for energy bills and it also avoids higher winter bills. This program has been well-received by customers. Of the Company's 203,845 Washington residential customers, 31,626 or 16% are on Comfort Level Billing.

In addition, the Company's Contact Center Representatives work with customers to set up payment arrangements to pay energy bills. Last year, over 69,618 customers were provided with 170,794 such payment arrangements established.

Q. Has the Company considered the possible economic impacts of the Company's rate proposals in its service territory?

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A. Yes. As with the existing surcharge of 25%, we are mindful of the impact of additional rate increases on our customers, including the businesses within our service area. Through my involvement with area chambers and economic development agencies, I am also aware of the important role the utility plays in the communities we serve. In the long run, a financially healthy utility providing safe and reliable service at competitive rates will foster economic development.

Q. Does that conclude your pre-filed direct testimony?

A. Yes.

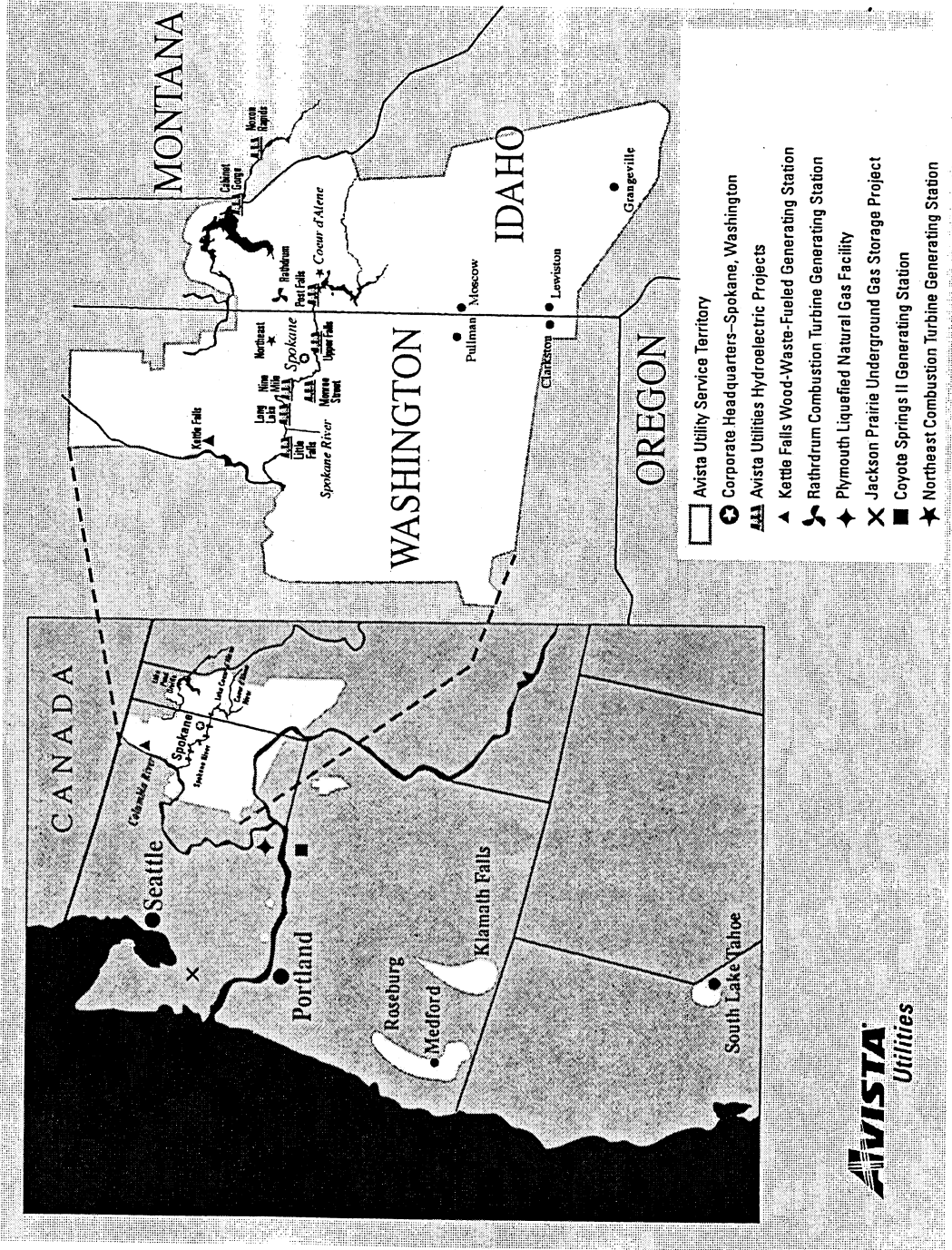
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DOCKET NO. UE-01 \_\_\_\_\_

EXHIBIT NO. \_\_\_\_ ( SLM-1)

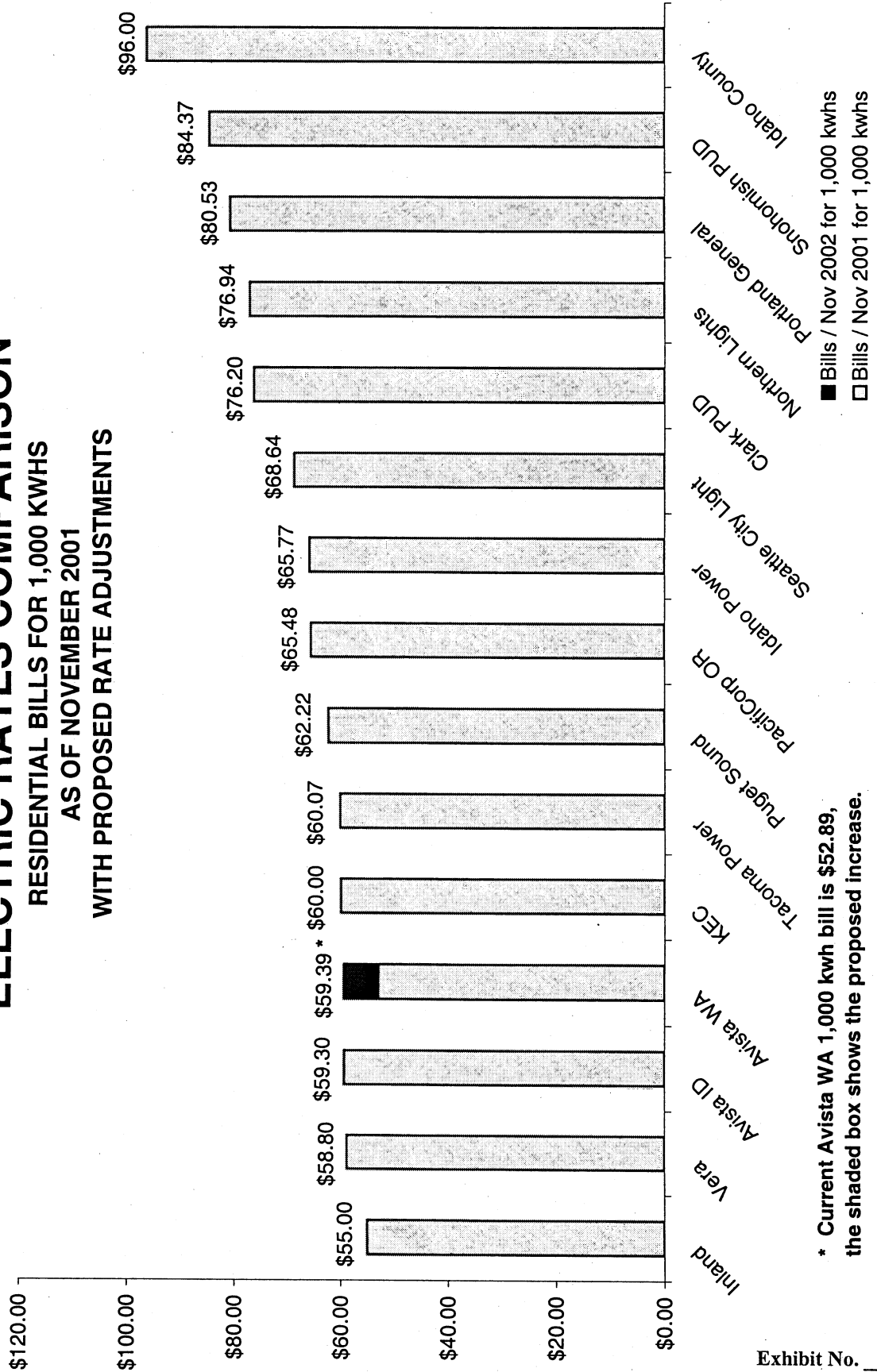
WITNESS: SCOTT MORRIS, AVISTA CORP.

# AVISTA UTILITIES: SERVICE TERRITORY



# ELECTRIC RATES COMPARISON

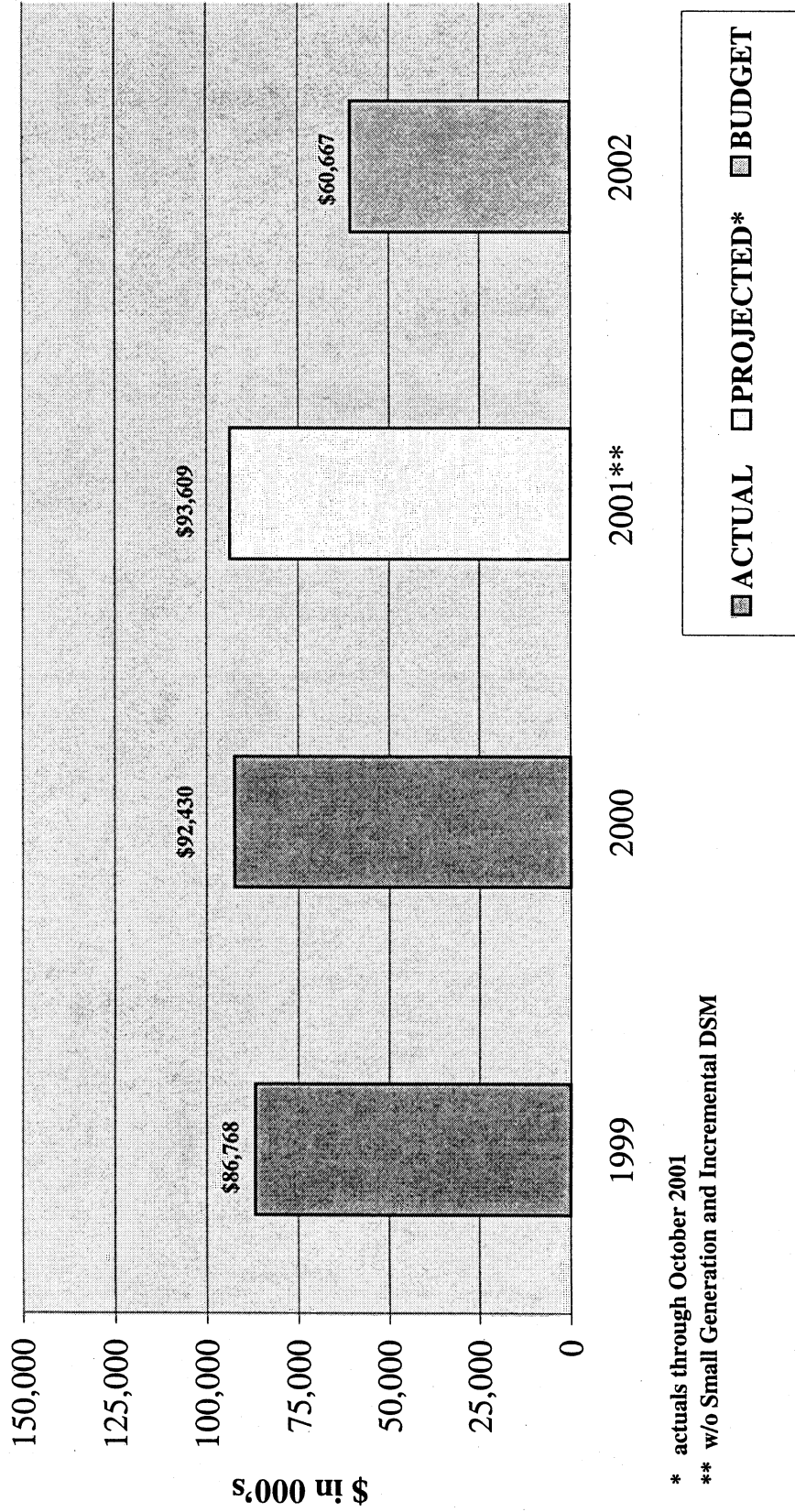
RESIDENTIAL BILLS FOR 1,000 KWHS  
AS OF NOVEMBER 2001  
WITH PROPOSED RATE ADJUSTMENTS



\* Current Avista WA 1,000 kwh bill is \$52.89, the shaded box shows the proposed increase.



# 1999 - 2002 Capital Expenditures



\* actuals through October 2001

\*\* w/o Small Generation and Incremental DSM