

Agenda Date: April 26, 2012
Item Numbers: A4 and A5

Dockets: UE-120436 and UG-120437
Company: Avista Corporation

Staff: Kathryn Breda, Energy Regulatory Analyst
Tom Schooley, Assistant Director – Energy Regulation
Roger Kouchi, Consumer Affairs Regulatory Analyst

Recommendation

Issue a complaint and order suspending the tariff revisions filed by Avista Corporation in Dockets UE-120436 and UG-120437, consolidate the filings, and set the matter for hearing.

Background

Avista Corporation (Avista or company) is a combined electric and natural gas utility. The company serves 236,293 electric customers and 149,154 natural gas customers in Washington.

On April 2, 2012, Avista filed tariff revisions designed to increase electric revenues by \$41.0 million (about 9.0 percent) for electric service, and by \$10.1 million (about 7.0 percent) for natural gas service. The tariffs bear an effective date of May 3, 2012.

In addition, Avista discussed a proposed one-year Energy Recovery Mechanism (ERM) bill decrease, or rebate, to electric customers of \$13.6 million (about 2.9 percent) in testimony. On April 18, 2012, Avista revised its filing to include the related tariff, Schedule 93. The tariff bears an effective date of May 3, 2012.

If the Commission approves the base rate tariff changes as filed, the average electric residential customer using 989 kilowatt-hours of electricity would see an increase of 9.4 percent (or \$7.39 per month) for the proposed base rate change. The average natural gas residential customer using 68 therms of natural gas would see an increase of 6.9 percent (or \$4.23 per month) for the proposed base rate change.

If the Commission approves both the increase in electric service rates and the Schedule 93 ERM decrease, as filed, the net effect of the electric service increase and the ERM decrease is to increase the average residential electric customer's monthly charge for one year by \$4.94 or 6.3 percent.

Avista's filing is based on a proposed return on equity of 10.90 percent and a rate of return of 8.25 percent.

Electric. The company indicates the requested electric rate increase of \$41.0 million is primarily driven by projected increases in net investment. Other factors include sales reductions from

demand side management (DSM) and the retail revenue credit adjustment, offset by a net decrease in power costs and operations and maintenance expenses.

Avista states the company's electric pro forma adjustments to the test year include an increase of approximately \$243.8 million in gross investment with a related increase of approximately \$90 million in net investment, or 86 percent of the electric revenue requirement request at the proposed rate of return. This is primarily related to a proposed attrition adjustment for the rate year representing, \$20.5 million of the \$41.0 million alleged revenue deficiency. The company's pro forma rate base adjustments include an adjustment to reflect an end of period instead of average of the monthly averages rate base.

In addition, the company is proposing an attrition adjustment for DSM and a retail revenue credit adjustment that account for approximately 17 percent of the requested electric revenue increase. The proposed DSM attrition adjustment is based on the company's calculation of electric DSM savings for 2011 through 2013. The retail revenue credit adjustment, currently included in the ERM, is proposed to be included in general rates.

Other electric expenses reflect a small net decrease which includes an 11 percent decrease in net power supply offset by an 8 percent increase in other expenses as summarized by Avista.

Natural Gas. Avista states that the \$10.1 million natural gas revenue deficiency is primarily due to increase in net investment. The company includes an attrition adjustment of \$2.7 million as well as an adjustment to reflect an end of period instead of average of the monthly averages rate base.

Customer Comments

On April 2, the company issued a news release announcing its request to increase electric and natural gas rates in Washington. The commission received 24 customer comments; 23 opposed and one undecided. These subtotals may not equal the total number of comments submitted because customers often address several issues of concern within their comments.

Consumer Protection staff advised consumers that they may access company documents about this rate case at www.utc.wa.gov and that they may contact Roger Kouchi at 1-888-333-9882.

General Comments

- Twenty-six consumers expressed frustration with the frequent rate increases. They stated that economic conditions are bad, the CEO and executive officers are paid exorbitant salaries, they have implemented weatherization and conservation measures, and their bills still continue to increase. These customers oppose a rate increase.

Staff Response

Customers were advised that state law requires rates to be fair, just, reasonable and sufficient to allow the company to recover reasonable operating expenses and the opportunity to earn a reasonable return on investment. They were also advised that the commission's regulatory staff will review this filing to ensure that all expenses are appropriate.

- Six customers stated that natural gas costs are at an all-time low so they do not understand why the company needs another rate increase.

Staff Response

Staff contacted the customers and informed them that the wholesale price of natural gas is not included in this general rate case. Staff explained the Purchased Gas Cost Adjustment (PGA) regulatory tool and the commission's recent approval of Avista's 6.4 percent decrease in the cost of gas effective March 16.

- Four customers commented that ratepayers have already paid Avista millions to upgrade. They believe the company should be saving for the necessary repairs and improvements for its aging infrastructure.

Staff Response

Staff informed these customers that many of the facilities are between 40 to 60 years old and that the costs of new installations have increased compared to the original cost of installation. Staff further explained that rates are set on the basis of a company's expenses in a given year, plus, the opportunity to earn a reasonable return on its investment. Customers were advised that the company must invest the money first and then request recovery of those costs, and rates would not increase until the Commission review is complete.

Discussion

Staff has reviewed the company's tariff filings, testimony, exhibits and associated work papers for compliance with WAC 480-07-140, WAC 480-80-105 and WAC 480-07-510. Based on our initial review, it appears that the company's filing complies with these rules. Additional time is needed for staff to thoroughly review the filing in order to recommend rates that are fair, just, reasonable, and sufficient.

The Company's filings involve a change in rate levels for electricity and natural gas service. Therefore, in order to allow formal discovery to commence, Staff recommends that the Commission's suspension order find that these dockets meet the criteria of WAC 480-07-

400(2)(b)(i) and that discovery will be conducted pursuant to the Commission's discovery rules in WAC 480-07-400 – 425.

Conclusion

Staff recommends the commission issue a complaint and order suspending the tariff revisions filed by Avista in Dockets UE-120436 and UG-120437, consolidate the filings, and set the matters for hearing.