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April 8, 2009

David Danner
Executive Director and Secretary
Washington Utilities & Transportation Commission
P. O. Box 47250
1300 S. Evergreen Park Drive S. W.
Olympia, Washington 98504-7250

Dear Mr. Danner:

Attached for filing with the Commission is an electronic copy of the proposed revisions to the Company's Line Extension, Conversion and Relocation Schedule 51 of Tariff WN U-28:

| | | |
|---|---|---|
| 1st Revision Sheet 51 | Canceling | Original Sheet 51 |
| 1st Revision Sheet 51A | Canceling | Original Sheet 51A |
| 1st Revision Sheet 51B | Canceling | Original Sheet 51B |
| 1st Revision Sheet 51C | Canceling | Original Sheet 51C |
| 1st Revision Sheet 51D | Canceling | Original Sheet 51D |
| 1st Revision Sheet 51E | Canceling | Original Sheet 51E |
| 1st Revision Sheet 51F | Canceling | Original Sheet 51F |
| 1st Revision Sheet 51G | Canceling | Original Sheet 51G |
| 1st Revision Sheet 51H | Canceling | Original Sheet 51H |
| 1st Revision Sheet 51I | Canceling | Original Sheet 51I |
| | Canceling | Original Sheet 51J |

**Background**

The Company's present line extension tariff was primarily developed and approved by the Commission in 1990. Several revisions to the tariff were approved by the Commission in 1995. The Company's present tariff incorporates the principle of average costing for electrical facilities commonly used in extending electric service. The tariff sets forth "Basic Costs", which are costs based on average actual historic costs for facilities such as transformers and conduit which are used consistently for electric line extensions. The Basic Costs have a fixed and variable component, with the variable component stated on a cost per foot basis. The present tariff also provides a list of "Exceptional Costs", which must be paid by the party requesting the extension for costs which are not included in the Basic Costs and can materially increase the cost of a line extension project, such as trenching in rock-soil conditions.

The average costing principle incorporated in the Company's tariff has worked well and the Company is not proposing to change the conceptual structure of the tariff. The tariff is fair and understandable to customers, it is relatively easy to apply to an individual line extension, and has resulted in relatively few customer complaints. However, the Basic Costs set forth in the tariff have not been updated for a number of years. As part of the proposed tariff, the Company has updated all Basic Costs set forth in the tariff based on the actual average costs of all materials and labor used in residential line extensions during 2008. This information is provided as Exhibit A and is reflected on Sheets 51 H and I of the proposed tariff. The Company is not proposing to change the present residential allowance of $1,000.

**Proposed Changes**

1. Average Costs – As detailed on proposed tariff sheets 51H and I, the Company is proposing to increase the primary, secondary, service and transformer average costs. Below is a summary of those changes:

| | Existing | Proposed |
|---|---|---|
| Overhead Primary Ciruit | | |
| Fixed Costs | $ 1,720 | $ 3,774 |
| Variable Costs | $ 1.30 | $ 4.04 |
| Underground Primary Circuit | | |
| Fixed Costs | $ 1,060 | $ 1,384 |
| Variable Costs | $ 3.50 | $ 8.45 |
| Overhead Secondary or Service Ciruit | | |
| Fixed Costs | $ 70 | $ 253 |
| Variable Costs | $ 1.80 | $ 4.23 |
| Underground Secondary or Service Ciruit | | |
| Fixed Costs | $ 50 | $ 199 |
| Variable Costs | $ 2.90 | $ 6.80 |
| Overhead Transformer | $ 650 | $ 1,173 |
| Padmount Transformer | $ 1,100 | $ 1,659 |

2. Residential Developments - For residential developments, the total Basic Cost (excluding the service cost) is proposed to increase from $910 to $1,701 per lot. This leads to a net increase of $791 per lot ($1701 less $910). As the developer is responsible for Primary, Secondary and Transformer costs (which is the Basic Cost less the Service Cost), a cash deposit or credit instrument is required from developers under the tariff until such time as the residence begins taking service. As Primary, Secondary and Transformer costs increased by $791 per lot under the proposed Schedule, the developer deposit or credit instrument is also being increased $791 per lot, from $910 to $1,701. However, if the developer provides the ditching within the development, the deposit or credit instrument required will be only $1,179 per lot, reflecting Avista's average ditching cost savings of $522 per lot ($1,701 less $522). Finally, the Builder will be responsible for a payment of $766 per lot, which is the service cost of $587 plus $179 which is the remaining amount left over having subtracted the ditch credit and allowance from the total Basic Cost ($1,701 - $522 - $1,000 = $179).

3. Exceptional Costs / Customer-Requested Costs - Under the present tariff, a residential or small commercial customer is required to pay "Exceptional Costs", which are the costs associated with unusual materials or labor, as set forth on page 51B of the present tariff. Exceptional Costs presently include the cost associated with items which may be necessary to install the extension, as well as items which may be requested by the customer but are not necessary to install the extension. Under the

proposed tariff, the Company has created a new cost category called "Customer-Requested Costs", which is "the cost of unusual labor and/or materials requested by the customer but which are not necessary to construct the line extension based on the Company's minimum design, construction, and operating practices." The customer will be required to pay for all Customer-Requested Costs, which are defined on Sheet 51C of the proposed tariff.

Exceptional Costs still exist under the proposed tariff, however they are limited to those costs which are necessary to construct the line extension but which are not reflected in the Basic Costs set forth under the tariff. Exceptional Costs are defined on Sheet 51B of the proposed tariff. The reason for the distinction between Exceptional Costs and Customer-Requested Costs is that the Company is proposing that, to the extent the Allowance exceeds the Basic Costs, that residual amount can be used to cover Exceptional Costs. This makes intuitive sense as the Allowance represents the maximum amount which the Company can spend to install a line extension, regardless of how the costs are categorized. For residential developments, the Basic Cost exceeds the Allowance, therefore, any Exceptional Costs will be paid by the developer, as well as any Customer-Requested Costs.

4. Conversions and Relocations - Lastly, the Company is proposing a revision under the "Conversions and Relocations" section of the tariff (page 51F). The present tariff requires a customer requesting a Conversion or Relocation of facilities to pay both the cost of the new facilities plus the remaining value of the existing facilities. As the revenue received from the customer will pay for the cost of the existing facilities over time, they should only be charged for the cost of the new facilities. Therefore, the provision for charging the customer for the remaining value of the existing facilities has been deleted.

Please direct any questions on this matter to me at (509) 495-8620.

Sincerely,

Patrick Ehrbar
Senior Regulatory Analyst

Enclosures