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March 29, 2021

**VIA – Commission Web-Portal**

Mark L. Johnson  
Washington Utilities and Transportation Commission  
621 Woodland Square Loop SE  
Lacey, Washington 98503

Dear Mr. Johnson,

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

7 <sup>th</sup> Revision Sheet 51A	Canceling	6 <sup>th</sup> Revision Sheet 51A
8 <sup>th</sup> Revision Sheet 51C	Canceling	7 <sup>th</sup> Revision Sheet 51C
8 <sup>th</sup> Revision Sheet 51D	Canceling	7 <sup>th</sup> Revision Sheet 51D
8 <sup>th</sup> Revision Sheet 51E	Canceling	7 <sup>th</sup> Revision Sheet 51E
6 <sup>th</sup> Revision Sheet 51F	Canceling	5 <sup>th</sup> Revision Sheet 51F
8 <sup>th</sup> Revision Sheet 51H	Canceling	7 <sup>th</sup> Revision Sheet 51H
8 <sup>th</sup> Revision Sheet 51I	Canceling	7 <sup>th</sup> Revision Sheet 51I

The revisions to the tariff sheets listed above update the Company’s Electric Line Extension Schedule 51 and are proposed to become effective May 15, 2021.

**Background**

The Company’s present tariff incorporates the principle of average costing for electrical facilities commonly used in extending service. The tariff sets forth “Basic Costs”, which are costs based on recent average actual 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 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.

Detailed below are the Company’s proposed changes to Schedule 51 and included with this filing are workpapers which provide support for the proposed changes.

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**Allowances** – In this filing, the Company has proposed to use a Perpetual Net Present Value (PNPV) method for updating the margin allowances applicable to new residential, commercial and industrial customer’s services. This methodology for electric service was first developed and supported by Commission Staff, and approved by the Commission, in Docket UE-180091 for Puget Sound Energy. In conversations with Commission Staff prior to making this filing, they reiterated that this methodology is still preferred. The Company concurs with the explanation of this allowance methodology as described by Commission Staff in its memo in Docket UE-180091:

*A Margin Allowance is an offset to the costs of a new line extension in recognition of the incremental revenue that a new customer provides. While margin allowances help new customers overcome a financial barrier to connecting to the system, the incremental revenue the new customer brings to the system can be expected to make the whole ratepayer population indifferent to the cost of the margin allowance. For that reason, the margin allowance is typically set to match the net benefit to the system of each new customer.*

*This calculation simply divides the estimated incremental revenue from an average customer by the company’s after-tax rate of return. The resulting ratio is the net present value of the customer’s presence on the system. This metric is a good proxy for the financial break-even point of adding new customers to the system by estimating the maximum line extension allowance that is economically viable for the company.*

The margin allowance amount for each of the rate schedules is the result of the estimated incremental revenue from an average customer. The margin allowance continues to be calculated on a per customer basis for new residential service and on a per kWh basis for the other rate schedules. The distribution incremental margin is derived from the Company’s Cost of Service study from its current general rate case filing (Docket No. UE-20900) priced at currently approved rates to determine the proper allocation of distribution delivery revenue. The Company proposes to use the current Cost of Service study so that the allocation of costs will be based on the updated allocation methodologies recently approved in the new Cost of Service rulemaking, therefore providing greater consistency in the allocation of costs for determining margin allowances in future filings. Any costs in excess of the allowance would be paid by the new customer as a Contribution in Aid of Construction. The Company’s allowances were last updated in 2019 based on the Cost of Service study from the Company’s 2017 general rate case filing (Docket No. UE-170485). Below is a summary of the proposed allowance changes:

<b><u>Service Schedule</u></b>	<b><u>Existing</u></b>	<b><u>Proposed</u></b>
Schedule 1 Individual Customer	\$ 1,860	\$ 4,840
Schedule 1 Duplex	\$ 1,485	\$ 3,865
Schedule 1 Multiplex	\$ 1,115	\$ 2,900
Schedule 11/12 (per kWh)	\$ 0.15007	\$ 0.61037
Schedule 21/22 (per kWh)	\$ 0.12628	\$ 0.32516
Schedule 31/32 (per kWh)	\$ 0.15951	\$ 0.38952

The Company has provided workpapers that provide the inputs and calculation of the allowances.

**Costs** – The Distribution Engineering Department at Avista is primarily tasked with the development and maintenance of the Company’s Construction & Material Standards. Periodically, Distribution Engineering will update the Construction & Material Standards in order to comply with the National Electric Safety Code (“NESC”). These Construction & Material Standards were last updated in 2017 to reflect the NESC’s code revisions. The standard designs in this filing have not changed and are consistent with those reflected in this filing.

As detailed on proposed tariff sheets 51H and 51I, the Company is proposing to update the primary, secondary, service and transformer average costs which have remained relatively consistent between years. Below is a summary of the cost changes:

	<u>Present</u>	<u>Proposed</u>	<u>% Change</u>
<u>Overhead Primary Circuit:</u>			
Fixed Cost	\$ 4,205	\$ 4,677	11.2%
Variable Cost	\$ 8.22	\$ 9.17	11.6%
<u>Underground Primary Circuit</u>			
Fixed Costs	\$ 1,934	\$ 1,920	-0.7%
Variable Costs	\$ 11.34	\$ 10.01	-11.7%
<u>Underground Secondary Circuit</u>			
Fixed Costs	\$ 428	\$ 394	-8.0%
Variable Costs	\$ 10.47	\$ 8.60	-17.9%
<u>Overhead Secondary Circuit</u>			
Fixed Costs	\$ 1,732	\$ 1,936	11.7%
Overhead Service Circuit	\$ 3.74	\$ 4.27	14.2%
Underground Service Circuit	\$ 9.54	\$ 8.43	-11.6%
Overhead Transformer	\$ 2,242	\$ 2,345	4.6%
Padmount Transformer	\$ 3,546	\$ 3,477	-1.9%

The primary driver of the increase in overhead rates as shown above, is due to a decrease in vehicle usage during 2020. As an example, the Company uses a tandem digger in most overhead electrical work. The cost of using this piece of equipment is estimated as part of an overhead crew’s cost to perform such work (this is done in what’s called a transportation pool<sup>1</sup>). The tandem digger had a decrease of 3,457 miles used over the prior year, a 17.5% reduction. Given that there are both fixed and variable costs associated with vehicle maintenance, the overall costs for maintaining this type of equipment also went down. However, the fixed costs held the balance in the pool high enough that the rate had to be changed in order to spread the costs across fewer miles, resulting in an increase in the amount of overhead vehicle costs assigned to these jobs.

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<sup>1</sup> The transportation pool contains costs for Fleet Services to maintain and operate Avista’s equipment, including labor, parts, licensing, fuel, etc.

The primary driver of the decrease in underground rates is due to a business process improvement in the way vehicle rates are applied in the Company's workorder system. Historically, the Company has assigned vehicle costs based on their defined rate and assigned it to a job. For example, a Ditch Witch with trailer would have been charged to a job at a rate of \$225. The Company redefined how costs are allocated such that we more accurately define the time and effort that the equipment would be used for on the job and therefore are able to allocate a lower cost to underground work. In the Company's view, this methodology more closely aligns with how vehicles are actually being utilized in the field.

Residential development costs, updated for the most current Construction & Material Standards and average 2020 construction costs are detailed below.

<b><u>Residential Developments</u></b>		
	<b><u>Present</u></b>	<b><u>Proposed</u></b>
Total Cost per Lot	\$ 1,938	\$ 1,772
Less: Service Cost	\$ 478	\$ 422
<b>Developer Responsibility</b>	<b><u>\$ 1,460</u></b>	<b><u>\$ 1,350</u></b>
Developer Refundable Payment	\$ 1,460	\$ 1,350
Builder Non-Refundable Payment	\$ 78	\$ -
Allowance	\$ 1,860	\$ 4,840

Enclosed is a copy of the workpapers supporting the line extension cost revisions contained in the proposed tariff sheets. In addition, during the week of April 5, 2021, the Company will send a letter to those developers and builders that may be affected by the proposed changes to inform them of the Company's request.

Please direct any questions on this matter to Tia Benjamin at (509) 495-2225 or Joe Miller at (509) 495-4546.

Sincerely,

*/s/ Joe Miller*

Joe Miller  
Sr. Manager of Rates and Tariffs  
Enclosures