

AVISTA CORP.
RESPONSE TO REQUEST FOR INFORMATION

JURISDICTION:	WASHINGTON	DATE PREPARED:	09/21/2009
CASE NO:	UE-090134 & UG-090135	WITNESS:	Brian Hirschhorn
REQUESTER:	Public Counsel	RESPONDER:	Tara Knox
TYPE:	Data Request	DEPT:	Rates
REQUEST NO.:	PC - 527	TELEPHONE:	(509) 495-4325
* Reference Decoupling UG-060518		EMAIL:	tara.knox@avistacorp.com

REQUEST:

Re: Avista's Responses to Public Counsel Data Request No. 442(b) and Public Counsel Data Request No. 494(d) (Incremental Fixed Cost to Serve New Customers).

At page 4 of his Rebuttal, Mr. Hirschhorn references certain estimated incremental fixed cost per average new residential customer values, including the amounts provided in response to Public Counsel Data Request No. 442 totaling \$32.42 per month, and then states, "Therefore, the Company does not realize new margin in excess of its incremental costs for new customers." Please provide the following information:

- a. Explain whether or not the Company believes that it typically loses money for each average residential new customer that is connected and served (at least between rate cases).
- b. At line 10 of page 4, Mr. Hirschhorn provides an estimated, "monthly incremental cost per customer in 2007" of \$20.32. Please provide the support for this value in the format of the Company's Response to Public Counsel Data Request No. 442(b) and explain each reason for the significantly lower result in 2007 than in 2008.
- c. In the Company's Response to Public Counsel Data Request No. 442 (b), Avista provided an "estimated rate base" of \$2,476.87 per new customer added. Please confirm that this value does not consider the incremental accumulated deferred income taxes that are recorded by Avista due to accelerated and bonus depreciation on new investment that is deductible for income tax purposes and provide the necessary revisions to the calculations to fully account for such tax benefits.
- d. In the Company's Response to Public Counsel Data Request No. 494, Attachment D, page 18, Avista reconciles its 2,031 change in Customers in 2008 to the 3,534 of "Total 2008 Residential Service Connections and Lots", indicating that 998 "Development Lots Installed" are part of the difference. Please explain what these "development lots" are and whether Avista is including investment for development connections for which it has added no new customers or new revenues.
- e. What measures are taken by Avista to protect itself and its ratepayers from the financial risk of constructing new gas utility plant to serve development lots for which compensatory new revenues and margins may not be realized.

- f. In the event Avista collects any incremental advances, contributions or deposits from developers to reduce its risk in extending new facilities into developments or building lots, please explain and quantify how these funds would impact the "estimated rate base" of \$2,476.87 per new customer that was estimated in Avista's Response to Public Counsel Data Request No. 442(b).
- g. In the Company's Response to Public Counsel Data Request No. 494, Attachment D, page 18, Avista indicates a 2,031 increase in the number of gas customers served in 2008. How many of these new customers were added as a result of electric DSM switch to gas conversions?
- h. What amount of total Washington gas utility capital expenditures in 2008 were not for the extension of utility plant to serve new customers?
- i. What percentage of total Washington gas utility capital expenditures in 2008 were not for the extension of utility plant to serve new customers?
- j. What amount of annual depreciation expense is included in the Company's gas utility revenue requirement for the test year?

RESPONSE:

- a) The fact that current costs in 2008 are higher than historical embedded costs leads to rate pressure from the installation of new customers. However, the recession impacted residential construction in 2008 which resulted in it being an unusual year. In prior years, the margin collected from new customers on average was comparable to the annual cost of incremental investment required to serve them.
- b) See attachment. (PC_DR_527 Attachment - tab 527b) New revenue investment was lower in 2007. One explanation for the difference in investment amounts between the two years is that in the prior year infrastructure was installed for nearly three times as many development lots as in either 2007 or 2008 and consequently a higher percentage of the service connections in 2007 were probably filling in those prior year developments leading to a lower average cost.
- c) The response to DR 442 does not attempt to determine incremental accumulated deferred income taxes. Attached (PC_DR_527 Attachment - tab 527c) is a revised calculation that incorporates an estimated accumulated deferred tax component to the DR 442 analysis. The resulting estimated rate base is \$2,470.94 with an average monthly cost of \$32.36.
- d) Development lots are the number of eventual customers expected to be served by the backbone infrastructure installed for the development. Development main investment was included in the 2008 incremental investment for new residential customers shown in DR 442. The lots were included in the denominator of the average cost per customer calculation in order to avoid overstating the average cost because over time the lots will become customers.
- e) We are able to minimize our construction costs and reduce our financial risks by having the customer (developer) provide the construction trench in developments. This is typically a large percent of the construction costs and allows us to recover our up front construction costs much more rapidly. Until late 2008, our experience has been that a high percentage of developments build out on a timely basis. The Company presently does not have anything in place that would guarantee compensatory gas revenue from developments.

- f) In the event an advance was collected and subsequently the customer did not take service, the advance would become a contribution in aid of construction that reduces rate base. Since contributions in aid of construction are included in the current investment dollars this situation is already reflected in the \$2,476.87 per customer.
- g) In 2008 there were 67 electric to gas furnace conversions in Washington.
- h) Total 2008 capital transfers to plant in service assigned to Washington gas service unrelated to the extension of utility plant to serve new customers was \$16,895,837.
- i) Total 2008 capital transfers to plant in service assigned to Washington gas service unrelated to the extension of utility plant to serve new customers comprised 61.60% of Total 2008 capital transfers to plant in service assigned to Washington gas service.
- j) Annual depreciation expense included in Ms Andrews Natural Gas Pro Forma Results of Operations shown on her Exhibit No. ____ (EMA-3) is \$7,993,000.

Avista Utilities
 Docket UG-090135 & UG-060518
 Response to DR PC-527 part b.
 Residential New Investment Cost per Customer

Gas New Revenue ER 1001 Washington Jurisdiction 12ME December 2007

	Dollars	Services/Lots
New Residential Investment	\$5,827,185	3,932
Residential Average Investment per New Customer		\$1,481.99
2007 Cost of Domestic Gas Meter		\$59.72
Total Average Investment		\$1,541.71
1st Year Average Accum Depr		\$18.49
Estimated Rate Base		\$1,523.22
Costs Associated with 2008 Average Investment per Residential Customer		
Depreciation (1)		\$36.98
Property Taxes	1.50%	\$23.13
Cost of Capital (Equity)	5.23%	\$80.63
Cost of Capital (Debt)	3.45%	\$53.19
Income Tax on Equity Cost	35%	\$43.42
Incremental Billing Cost per Bill	0.5430	\$6.52
Total Annual Cost		\$243.86
Monthly Cost		\$20.32

(1) Weighted Average Depreciation Expense calculation

		2008 Total	Avg per Cust	Deprec Rate	Deprec Expense
Mains	ER1001	3,603,189	\$1,019.58	1.81	\$18.45
Services	ER1001	4,788,648	\$1,355.02	2.77	\$37.53
Reg Station	ER1001	266,820	\$75.50	3.06	\$2.31
		<u>8,658,657</u>			
Meters			\$56.83	3.22	\$1.83
			<u>\$2,506.93</u>		<u>\$60.13</u>
				wtd rate	
				0.02398499	

Avista Utilities
Docket UG-090135 & UG-060518
Response to DR PC-527 part c.
Residential New Investment Cost per Customer

Gas New Revenue ER 1001 Washington Jurisdiction 12ME December 2008

	Dollars	Services/Lots
New Residential Investment	\$8,658,657	3,534
Residential Average Investment per New Customer		\$2,450.10
2008 Cost of Domestic Gas Meter		\$56.83
Total Average Investment		<u>\$2,506.93</u>
1st Year Average Accum Depr		\$30.06
1st Year DFIT (2)		<u>\$5.93</u>
Estimated Rate Base		\$2,470.94
Costs Associated with 2008 Average Investment per Residential Customer		
Depreciation (1)		\$60.13
Property Taxes	1.50%	\$37.60
Cost of Capital (Equity)	5.23%	\$129.23
Cost of Capital (Debt)	3.45%	\$85.25
Income Tax on Equity Cost	35%	\$69.59
Incremental Billing Cost per Bill	0.5430	<u>\$6.52</u>
Total Annual Cost		\$388.31
Monthly Cost		\$32.36

(1) Weighted Average Depreciation Expense calculation

		2008 Total	Avg per Cust	Deprec Rate	Deprec Expense
Mains	ER1001	3,603,189	\$1,019.58	1.81	\$18.45
Services	ER1001	4,788,648	\$1,355.02	2.77	\$37.53
Reg Station	ER1001	<u>266,820</u>	\$75.50	3.06	\$2.31
		8,658,657			
Meters			\$56.83	3.22	<u>\$1.83</u>
					\$60.13

(2) Tax Depreciation calculation

		2008 Total	Avg per Cust	Tax Deprec Rate	Tax Deprec Expense
Mains	ER1001	3,603,189	\$1,019.58	3.75	\$38.23
Services	ER1001	4,788,648	\$1,355.02	3.75	\$50.81
Reg Station	ER1001	<u>266,820</u>	\$75.50	3.75	\$2.83
		8,658,657			
Meters			\$56.83	3.75	<u>\$2.13</u>
					\$94.01

Tax vs Book Deprec Diff	\$33.88
Tax Rate	<u>0.35</u>
DFIT Benefit	\$11.86