

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)	
AVISTA CORPORATION DBA AVISTA)	CASE NO. AVU-E-00-1
UTILITIES—WASHINGTON WATER POWER)	
DIVISION FOR APPROVAL OF REVISED)	NOTICE OF INTERVENTION
ELECTRIC LINE EXTENSION SCHEDULE 51.)	DEADLINE
)	
)	NOTICE OF SCHEDULING
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)	NOTICE OF HEARING
)	
)	ORDER NO. 28429

On February 28, 2000, Avista Corporation dba Avista Utilities—Washington Water Power Division (Avista) filed an Application with the Idaho Public Utilities Commission (Commission) requesting approval of proposed revisions to its electric Schedule 51 Line Extension, Conversion and Relocation tariff. The Company’s filing is in response to Commission Order No. 28097 issued July 29, 1999, in Case No. WWP-E-98-11.

Avista states that it provided an informational letter in late December to approximately twenty residential developers that the Company works with which outlined the proposed changes to the Company’s line extension tariff.

On March 23, 2000, the Commission issued a Notice of Application and Modified Procedure in Case No. AVU-E-00-01. The deadline for filing written comments was May 5, 2000. The Commission Staff was the only party to file comments. The Company filed a reply on May 30. Also filed by way of reply was a letter from Shorewood Homes Inc.

Average Unit Costs

As reflected in the Company’s Application, the present Schedule 51 tariff incorporates the principle of average costing for the installation of facilities commonly used in extending electric service. The tariff sets forth “Basic Costs”, which are based on the average material and labor costs for the installation of these facilities, such as transformers and conduit,

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which are used consistently in the installation of electric line extensions. The Basic Costs have a fixed and variable component, with a variable component stated on a cost-per-foot basis. The present tariff also provides a list “Exceptional Costs”, which are items not included in the Basic Costs and that can materially increase the cost of a line extension project, such as trenching in rock-soil conditions. Under the present tariff, Exceptional Costs must be paid by the customer or developer.

The Company is not proposing to change the conceptual structure of the Schedule 51 tariff. The present tariff, it states, is relatively easy to apply, is fair and understandable to customers, and has resulted in relatively few customer complaints. The Basic Costs set forth in the tariff, however, have not been updated since 1990. As part of the proposed tariff, the Company has updated all Basic Costs based on 1998 materials and labor costs.

Staff Comments

Staff supports continued use of average unit costs for residential jobs provided the Company maintain a fairly extensive list of “exceptional costs” and be rigorous in assessing them. Staff recommends individual cost estimates for non-residential jobs.

An average unit cost approach, Staff contends, has the advantage of simplicity and predictability. An individual cost estimate approach (used by Idaho Power Company and PacifiCorp for all jobs) has the disadvantages of being difficult to administer; it precludes up front predictability; and it is often difficult to assess whether the cost estimate reflects a fair price.

Staff finds the average unit costs proposed by the Company to be acceptable.

Staff notes the importance of the Company abiding by the requirement to annually file updated average unit costs (by February 1) for Commission approval—over time, material prices change, labor rates increase and technology changes.

Company Reply

The Company states that it compiles updated cost information to be used for line extension purposes during the first quarter of each year to reflect information from the prior calendar year. The Company recommends an April 1 file date for updated average cost information.

Residential Developments

For residential developments the total Basic Cost is proposed to increase from \$1,120 to \$1,400 per lot. Of the total \$280 increase, \$130 represents an increase in Primary, Secondary and Transformer costs and \$150 represents an increase in service line costs. As the developer is responsible for Primary, Secondary and Transformer costs, a cash deposit or credit instrument is required from developers for these costs until such time as the residents begin taking service. As Primary, Secondary and Transformer costs increase by \$130 per lot under the proposed tariff, the developer deposit or credit instrument is also being increased \$130 per lot, from \$910 to \$1,040. However, if the developer provides the ditching within the development, the deposit or credit instrument required will be only \$760 per lot, reflecting Avista's average ditching cost savings of \$280 per lot ($\$1,040 - \$280 = \760). Additionally, as the Company is proposing a revised residential allowance of \$1,300, as discussed below, the developer would receive a refund of \$940 if a cash deposit was made (\$1,300 allowance less \$360 service cost).

Staff Comments

Staff agrees with the Company's proposal to increase the total cost per lot from \$1120 to \$1400 (service cost plus basic cost). Staff also agrees with the Company's proposed change in the trenching credit/deposit.

Staff notes that its investigation revealed relatively few instances where there were charges assessed for work outside the development. Staff suggests that the Company's practice in this area be closely monitored.

Residential Allowance

As part of its review of its Schedule 51 tariff, the Company states that it examined the present level of the line extension allowances. An allowance is the amount of credit the customer receives against the estimated cost of the line extension based on future energy consumption and resulting margin to the Company. If the estimated line extension cost exceeds the allowance, the customer is required to pay the excess cost in the form of a cash contribution (Contribution In Aid of Construction). The present level of the residential single family allowance is \$1,000. The Company is proposing to increase that level to \$1,300. The increase in the allowance of \$300 approximates the increase in the Basic Costs of \$280 per lot for residential

developments, therefore the majority of new residential customers will be unaffected by the proposed changes.

The Company's present allowance level of \$1,000 was based on the average energy consumption of all residential electric customers, a net margin that recovers the incremental cost of the line extension, and a first year rate of return equal to the Commission-authorized level in 1990. The derivation of the present allowance also assumes that all of the Company's costs are variable and will increase proportionately with the addition of a new customer, i.e., a fully distributed cost of service approach.

The Company states that it no longer believes that a fully distributed cost of service approach is reasonable. It does not believe that all of the Company's costs will increase proportionately with the addition of new customers. Rather than estimating the variability of each cost account, the Company employed an overall reasonableness test regarding the "contribution to system costs" resulting from the proposed allowance of \$1,300. The Company performed a revenue requirement analysis assuming a line extension investment of \$1,300 (equal to the proposed allowance), a required (levelized) rate of return based on the level authorized by the Commission in Case No. WWP-E-98-11, and an estimated annual gross margin received from the customer of \$261. The gross margin estimate is based on the estimated electric revenue from a typical customer using gas heat and water-heat less the customers average production cost from the Company's cost-of-service study filed in its general rate case. Based on these assumptions, a new customer would provide a contribution to approximately 47% of system costs. The result based on the proposed allowance level of \$1,300 is that a new customer will contribute approximately 1.3¢ per kilowatt hour to system transmission and distribution costs, compared to an embedded average of approximately 2.7¢ per kilowatt hour.

Staff Comments

Staff believes that it is necessary to shift to new customers those costs that exceed the investment supportable by existing rates. The Company proposes to increase the existing allowance of \$1,000 to \$1,300. Staff contends that increasing allowances will cause upper pressure on rates and require subsidization of new customers by existing customers.

Staff contends that the Company's investment in distribution/terminal facility (transformer, meter & service drop) for each new customer (allowance) should be equal to the embedded costs of the same facilities used to calculate rates. Costs in excess of embedded costs, Staff contends, should be paid through one-time capital contributions by the new customers. Based on assumptions and calculations set forth in Staff comments and attachments, Staff recommends a residential customer allowance of \$875 (as corrected).

Staff notes that the Company's method for determining allowances uses a revenue requirement model. Avista, Staff states, assumes that not all costs increase incrementally with the addition of a single new customer. Staff disagrees. Staff believes that **all** costs increase incrementally with the addition of a single new customer.

Company Reply

The Company contends that Staff's embedded investment approach for determining residential allowance is unreasonable. Historical (embedded) distribution costs per customer, the Company maintains, have no direct relationship to present line extension costs. Additionally, the Company contends that Staff's approach fails to address incremental margin, or contribution to costs, produced by new customers in their allowance calculation.

The Company's proposed allowance (\$1300) is based on an analysis, it states, which estimates the incremental margin (revenue less energy cost) provided by a new customer, provides for the recovery of all incremental line extension costs, and provides for a significant contribution toward non-line extension ("system") costs.

The Company disagrees with Staff's assertion that all Company system (non-line extension) costs (transmission, distribution, O&M, customer service, A&G expense) increase proportionately with the addition of new customers. It is impossible, the Company contends, to measure or predict what level of future system cost increases are due to the addition of new customers. Much of the future change in system costs, the Company maintains, will occur whether or not new customers are added.

The Company notes that the \$1300 allowance proposed by Avista is still considerably less than the present allowance authorized for Idaho Power (\$1926) or Utah Power (\$1432).

The Company further notes that the Commission in Order No. 26780 approving changes in Idaho Power’s line extension tariff stated

Recovery of those costs in excess of embedded costs must (also) be provided for and the impact on rates of existing customers is an important part of our consideration. We (also) recognize that requiring the payment of all costs above embedded investment from new customers could have severe economic effects.

If Staff’s proposed allowance is approved, the Company contends that it may result in significant economic consequence on Avista in its Idaho service territory—in those areas where Avista competes with Kootenai Electric Cooperative. Kootenai, Avista contends, is able to offer more “flexible” line extension terms than Avista and does not require a cash deposit or credit instrument to insure build-out of the development. Any difference in the level of service provided by the Company to developers, the Company contends, will not outweigh the substantial amount of refundable cash payment required under the Staff’s proposed residential allowance.

Other Proposed Schedule 51 Changes

Commercial/Industrial Extensions

Presently, the Company performs a customer-specific analysis to determine the cost and allowance associated with extending service to a commercial or industrial customer who uses over 72,000 kilowatt hours (kWh) per year. All commercial customers who use less than 72,000 kWh hours per year presently receive a fixed allowance of \$1,300. The present allowance of \$1,300 was based on the average energy usage for all Commercial Schedule 11 customers and the 72,000 kWh hour level was based on the maximum annual usage for a customer taking service under Schedule 11. Based on an analysis similar to that performed for residential customers, an appropriate allowance level for a commercial customer using 72,000 kWh hours would be several times the present level of \$1,300. Therefore, the Company is proposing that a customer specific analysis be performed on all commercial and industrial customers, using their estimated energy usage and the appropriate allowance per kilowatt hour

depending on the rate schedule, in order to determine the allowance. The allowances for all rate schedules other than Residential Schedules 1 and 12 are stated on a per kilowatt basis and are being increased based on the present rates of those schedules and a financial analysis similar to that per Residential Schedule 1.

The line extension costs for commercial and industrial customers will be analyzed differently depending on if they require a single-phase or three-phase service. Basic Costs set forth in the tariff are based on single-phase service. For customers requiring three-phase service, the line extension cost will be based on the total estimated costs derived from internally published average costs.

Staff Comments

Staff supports the Company's proposal to compute an allowance based on a customer-specific analysis for all commercial and industrial customers using their estimated annual energy usage and the appropriate allowance per kilowatt hour for each rate schedule. Staff contends however that the allowances per kilowatt proposed by Avista are too high. Staff's proposed allowances are based on the amount of embedded distribution investment per customer. For Schedules 11-12 (general service) customers, Staff recommends an allowance of \$0.080/kWh of estimated annual load. For Schedules 21-22 (large general service) and 31 (pumping), because the computed allowances are very close, Staff recommends that the allowance for both classes be set at \$0.060/kWh of estimated annual load. Staff recommends that the proposed allowances for Schedules 11, 21 and 31 be explicitly shown in the line extension tariff.

Staff believes that the Basic Costs set forth in the tariff should include costs for both single-phase and three-phase service. Staff does not believe that it is acceptable to base three-phase extension costs on estimates derived from "internally published" average costs.

For industrial customers, Schedule 25, Staff recommends that allowances be determined on a case-by-case basis.

Company Reply

The difference in proposed allowances for new commercial and industrial customers (Schedules 11, 21, 31), the Company states, reflects the same difference in approach used by the

Company and Staff to derive the residential allowance. The Company's proposed allowance, it states, provides for the recovery of all incremental energy and line extension costs and provides a substantial contribution (50%) toward future increases and system costs.

The Company has no problem with including the allowances for Schedule 11, 21 and 31 in the line extension tariff.

The Company states that there are not standard assemblies of distribution facilities for a three-phase line extension as there are for a single-phase extension, hence there are no three-phase Basic Costs similar to those used for single-phase extensions. Including three-phase costs in the tariff, the Company contends, would require the listing of over 300 items. This amount of detail would require annual update. As less than 10% of new line extensions are for three-phase service, the Company contends that it does not make sense to add this to the tariff.

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. 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.

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. This proposed change, the Company states, will not have a significant effect on the amount of customer contributions required from single-party residential customers and developers. For residential developments, the Basic Cost (\$1,400) exceeds the allowance (\$1,300), therefore, any Exceptional Costs will be paid by the developer, as well as any Customer-Requested Costs. With regard to single-party residential extensions, in nearly all instances the Basic Costs will exceed the allowance. However, because of the significant

increases in the allowance per kilowatt-hour for non-residential rate schedules, the allowance could cover all or part of any Exceptional Costs for commercial line extensions.

Staff Comments

Staff has no objection to the Company's proposal to create a new category of costs called "Customer-Requested Costs."

Miscellaneous Proposed Charges

Under the present tariff, customers who are estimated to use less than 4800 kilowatt hours per year do not receive an allowance and must pay the entire cost of the line extension. The rationale used to establish the present minimum use level of \$4,800 is that the margin per kilowatt hour provided under Residential Schedule 1 must at least recover the cost of providing service from the primary or secondary line to the residents. Using the proposed average service cost of \$360 and the margin from Schedule 1, a minimum annual usage amount of 2500 kilowatt hours would provide recovery of the service cost.

Staff Comments

Staff recommends approval of the Company's proposal to reduce from 4500 kilowatt hour/year to 2500 kilowatt hour/year, the minimum annual usage amount for residential customers to be eligible for line extension allowance.

The residential allowance for dwellings which have more than four units (apartments) is proposed to increase from \$600 to \$780 per unit. The proposed increase in the allowance for these dwellings is proportional to the increase in the allowance for residential dwellings with less than four units (\$1,000 to \$1,300).

Staff Comments

Staff recommends that the residential allowance for dwellings having more than four units (apartments) be decreased from \$600 to \$525.

Company Reply

The Company notes that both Staff's and the Company's proposed allowances are based on the ratio of their proposed residential single-family allowance to the Company's existing single-family allowance.

Lastly, the Company is proposing a revision under the “Conversions and Relocations” section of the tariff. 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 continue to pay for the cost of 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.

Staff Comments

Staff recommends approval of the Company’s request to revise the “Conversions and Relocations” section of the tariff to relieve customers from paying the cost of new facilities plus the remaining value of existing facilities.

YOU ARE HEREBY NOTIFIED that the Commission after reviewing the filed comments in this case finds it reasonable to schedule the matter for hearing. Reference IDAPA 31.01.01.204.

YOU ARE FURTHER NOTIFIED that **persons desiring to intervene** in Case No. AVU-E-00-01 for the purpose of becoming a party, i.e., to present evidence, to acquire rights of cross-examination, to participate in settlement or negotiation conferences, and to make and argue motions **must file a Petition to Intervene** with the Commission pursuant to Rules of Procedure 72 and 73 of the Commission’s Rules of Procedure, IDAPA 31.01.01.072 and –073. Persons intending to participate at the hearing must file a Petition to Intervene **on or before Friday, July 21, 2000**.

YOU ARE FURTHER NOTIFIED that persons desiring to present their views without parties’ rights of participation and cross-examination are not required to intervene and may present their comments without prior notification to the Commission or to other parties.

YOU ARE FURTHER NOTIFIED that discovery is available in Case No. AVU-E-00-1 pursuant to the Commission’s Rules of Procedure, IDAPA 31.01.01.221-234.

YOU ARE FURTHER NOTIFIED that the Company's Application together with filings of record can be reviewed at the Commission's office in Boise, Idaho and at the Company's Idaho offices during regular business hours.

YOU ARE FURTHER NOTIFIED that all proceedings in this case will be held pursuant to the Commission's jurisdiction under Title 61 of the Idaho Code and the Commission may enter any final Order consistent with its authority under Title 61.

YOU ARE FURTHER NOTIFIED that all proceedings in this matter will be conducted pursuant to the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

YOU ARE FURTHER NOTIFIED that pursuant to agreement of the parties and the Commission the following scheduling for simultaneous filing of direct testimony has been adopted:

Friday, August 18, 2000	Prefile deadline—direct testimony Staff/Intervenor
Friday, August 18, 2000	Prefile deadline—direct testimony Avista

The prepared testimony and exhibits must conform to the requirements of Rule 266 and 267 of the Commission's Rules of Procedure. Reference IDAPA 31.01.01.266-267. The parties should coordinate discovery requests and responses so that they are able to comply with the established prefile deadline.

YOU ARE FURTHER NOTIFIED that the Commission will conduct a **technical hearing** in Case No. AVU-E-00-1 commencing at **9:30 A.M. THURSDAY, SEPTEMBER 7, 2000 AT THE COMMISSION HEARING ROOM, 472 WEST WASHINGTON, BOISE, IDAHO.**

YOU ARE FURTHER NOTIFIED that all hearings and prehearing conferences in this matter will be held in facilities meeting the accessibility requirements of the Americans with Disabilities Act. In order to participate, understand testimony and argument at a public hearing, persons needing the help of a sign language interpreter or other assistance may ask the Commission to provide a sign language interpreter or other assistance as required under the

Americans with Disabilities Act. The request for assistance must be received at least five (5) working days before the hearing by contacting the Commission Secretary at:

IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, ID 83720-0074
(208) 334-0338 (TELEPHONE)
(208) 334-3151 (TEXT TELEPHONE)
(208) 334-3762 (FAX)

ORDER

In consideration of the foregoing and as more particularly described above, IT IS HEREBY ORDERED and the Commission does hereby adopt the scheduling and hearing date set out above.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this _____ day of July 2000.

DENNIS S. HANSEN, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

PAUL KJELLANDER, COMMISSIONER

ATTEST:

Barbara Barrows
Assistant Commission Secretary

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