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**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE APPLICATION OF )**  
**AVISTA CORPORATION FOR APPROVAL OF )** **CASE NO. AVU-E-00-1**  
**REVISED ELECTRIC LINE EXTENSION )**  
**SCHEDULE 51. )** **COMMENTS OF THE**  
**)** **COMMISSION STAFF**  
**)**

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On February 28, 2000, Avista Corporation dba Avista Utilities - Washington Water Power Division (Avista, Company) 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.

**Average Unit Costs**

Avista's 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, 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 of "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 Position***

A review of our Consumer Assistance Division records reveals relatively few complaints from Avista customers regarding line extensions. From January 1, 1997 to the present, there have been a total of 18 contacts with Avista customers that fall under our line extension categories:

<b><u>Line Extension Category</u></b>	<b><u>Number of Complaints/Inquiries</u></b>
Route/Placement	1
Cost/Rates	6
Service Upgrade Charge	1
Held Order/Delay	1
Policy/Practices	6
Easement/Permit	1
Miscellaneous	2

The contacts in general concerned routine line extension situations. Overall, customers who contacted the Commission were unfamiliar with line extension costs, policies, and practices and were looking for verification of the information the Company had given them, or were objecting to the cost of construction or relocation. Staff’s analysis did not reveal any problems with Avista’s administration of its line extension policy.

In reviewing the proposed tariff for readability, Staff found it to be clear and easy to understand—as user friendly as possible given the complexity of the topic.

Avista sent an informational letter to residential developers late last year about its proposed policy changes. To date, the PUC has not received any comments from customers or

developers about the proposed changes to the tariff. However, given the fact that the Company's proposal has no negative impact on developers, and in some cases has a positive financial benefit as compared with the existing policy, it is not surprising that developers would not oppose the suggested changes.

Staff supports the continued use of an average unit cost approach for determining the cost of residential line extensions **provided** the Company maintains a fairly extensive list of "exceptional costs" and fully exercises its responsibility to assess them whenever appropriate.

Under any average unit cost approach, because all customers pay an average price, some customers will pay more than they should, while others will pay less. As long as the price customers should rightfully pay deviates only minimally from the average price actually paid, the benefits of simplicity and knowing costs in advance outweigh the problem of individual customers paying too much or too little. For those line extensions costing substantially more than average, the ability to assess exceptional costs will permit the Company to appropriately charge customers more when circumstances warrant.

For this to work successfully, however, the Company must actually assess exceptional costs when warranted and not simply assess them in only extremely rare circumstances. Staff's review of all of the Company's Idaho line extensions during the past two years (over 500 line extensions) revealed that while Exceptional Costs are charged, they are not charged very often. The vast majority of Exceptional Costs charged were in cases where customers requested underground service in areas where overhead service was standard. While these are appropriate instances for charging exceptional costs, there are many other situations as well when they should be charged. Granted, charging exceptional costs whenever the actual job cost is more than average is not appropriate, but neither is it appropriate to only rarely charge them.

Neither Idaho Power nor PacifiCorp continue to use an average unit cost approach for pricing line extensions. Both make cost estimates for every individual job regardless of size, and charge customers based on this estimate. While this approach offers the primary advantage of charging every customer based only on the cost of his own job, it does suffer several disadvantages. For example, it can be more difficult to administer, customers do not know what cost to expect until after an estimate has been completed, and it is difficult for customers (and Staff) to evaluate whether the cost estimate reflects a fair price. In summary, neither an average

unit cost approach nor an individual cost estimate approach is clearly superior to the other. Staff believes an average unit cost approach is acceptable for residential jobs because they are typically very similar. Individual cost estimates should be used for all non-residential jobs because of the wide variety of circumstances that may be encountered.

With regard to the average unit costs themselves that the Company is proposing, Staff finds them acceptable. The proposed costs as calculated appear to accurately reflect the actual costs that would be estimated by the Company's cost estimating system for "average" line extension jobs.

If the Commission approves the continued use of an average unit cost approach, Staff believes it is essential that the Company strictly abide by the requirement to annually file updated average unit costs for Commission approval. Over time, material prices change, labor rates increase and technology changes. Annual updates are necessary so that the costs charged to customers accurately reflect the value of the facilities installed, and also so that the costs charged closely correspond to the value of plant booked by the Company.

### **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. 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 for space and water heating, less the customer's 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 Position***

Avista's investment in distribution plant and terminal facilities, on a per customer basis, has been increasing in recent years. Revenues per customer, on the other hand, have flattened out in recent years and are not keeping pace with the increasing investment per customer. The decrease in revenues is likely attributable to the increasing predominance of gas-heated homes.

The result of increasing levels of investment and decreasing revenues per customer is upward pressure on rates. Upward pressure results when new customers are added at higher levels of investment per customer than current rates can support. Each new customer that is added requires an investment in distribution plant and terminal facilities. The new investment is undepreciated, while the investment upon which the Company's revenue requirement (and rates) is calculated was both lower on a per customer basis when originally made and is now partially depreciated. Therefore, when the new plant investment is booked by the Company, the resulting revenue requirement is higher per customer than it was before the new customers were connected. The Company then has three alternatives: increase rates to all customers to cover the

increased revenue requirement, decrease the revenue requirement by shifting more of the cost of investment in new distribution/terminal facilities to the customer, or absorb the increased costs and reduce their return on investment.

In Avista's most recent general rate case, Case No. WWP-E-98-11, one of the reasons given by the Company for needing a rate increase was the increase in distribution plant investment and the increased pressure it placed on the revenue requirement. The rate increase granted by the Commission will, for the most part, cover the increased revenue requirement, but it will not relieve the upward pressure on rates going forward. To do that, Staff believes it is necessary to shift to new customers those costs that exceed the investment supportable by existing rates. Staff feels this is appropriate because new customers are the people who benefit exclusively from those facilities.

To a great extent, a utility's investment in distribution plant is driven by its line extension policy, and more specifically, the allowances granted under the policy. An "allowance" is that portion of the investment in a new line extension that is paid by the Company. A higher allowance generally means that more of the distribution plant is added to rate base, thus causing a higher revenue requirement. In order to meet the higher revenue requirement and still earn its authorized rate of return, rates must be increased. When rates are increased, the revenue requirement at that point in time can be met, but the upward pressure on rates will resume unless the allowances offered by the utility are also changed. Rates and allowances are directly linked because allowances directly affect a utility's revenue requirement, and rates, in turn, are set such that the revenue requirement can be met.

Staff believes that line extension allowances should be set at a level that does not put upward pressure on rates. The addition of new distribution plant to serve new customers should not, by itself, create a need to increase rates. Future rate increases due to the addition of distribution plant may be necessary, but only because of the higher cost of new plant and because of the replacement of existing distribution plant. Staff agrees with the Company that a change in line extension allowances is needed, but does not agree with the allowances proposed by the Company.

Staff believes that Avista's current line extension allowances are too generous and cannot continue to be supported at the current level given the rates that are now in effect.

Without a decrease in the allowances, a portion of the increased cost attributable solely to serving new customers will be borne by the Company or existing customers.

In this case, Avista is proposing that allowances be increased for every customer class. Staff contends that increasing allowances will cause even more upward pressure on rates than before. This is not a desirable outcome in Staff's opinion. Staff does not agree that the Company's analysis supports an increase in allowances. Under the Company's own analysis, the annual revenue collected from customers through rates, besides covering generation costs, is sufficient to cover the Company's investment in new distribution facilities (allowance) plus only about half of the remaining transmission and distribution costs. Staff believes a fair and proper analysis supports a decrease in allowances.

Staff also believes that a goal of a good line extension policy is to eliminate subsidization of one group of customers by another. Existing customers should not have their rates increased just because of the impacts of new customers. New customers should pay for the cost of new distribution plant needed to serve them, while replacement distribution plant for existing plant should continue to be paid for by all customers. As we move into a more competitive environment, Staff believes customers will demand that each customer pay his own way. It is not yet known how competition will come to Idaho, or to what extent. However, it is clear that costs will have to be aligned with rates in a competitive environment, and that the cost of extending service to new customers will not be subsidized by other customers.

### ***Staff's Calculation of Allowances***

Staff believes that the Company's investment in distribution/terminal facilities 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 should be paid through one-time capital contributions by the new customers.

To determine appropriate allowances, Staff began by making computations using exactly the same procedure as was recently used to determine the current allowances for both Idaho Power and PacifiCorp (Case No. IPC-E-95-18, Case No. UPL-E-96-4). Basically, the approach determines the equivalent investment the Company can make that will be supported by the revenue stream provided by new customers. Attachment No. 1 details the approximate size of that investment for residential, small commercial, large commercial, and irrigation classes.

Staff used the Commission's last rate order in Case No. WWP-E-98-11 as the basis of the calculations, including the rates which will become effective on August 1, 2000, since those are the rates which will be in effect once a revised Schedule 51 is implemented. Assumptions used in making the calculations are provided in Attachment No. 2. Staff also used the Company's 1997 cost of service study as a basis for calculations, adjusted to reflect the Commission's decision in Case No. WWP-E-98-11, since that is the foundation for the rates used in the analysis. A summary of the cost of service figures used in the analysis is included as Attachment No. 3.

The equivalent investment per residential customer is calculated using the cost of service study and capital structure accepted by the Commission. Attachment No. 4 summarizes the calculation of the investment for the residential class. The net distribution plant and terminal facility value of \$865.24 per customer (plant in service less accumulated depreciation and amortization) is used to calculate the revenue requirement associated with the return on common equity grossed up to recognize the income taxes associated with the return ( $865.24 \times (0.04023 \times 1.571) = \$54.68$ ). Debt service costs ( $0.04096 \times 865.24 = \$35.44$ ) and the carrying costs of preferred stock ( $0.00860 \times 865.24 \times 1.571 = \$11.69$ ) are added to the equity return and tax calculation to produce the total revenue requirement associated with the cost of capital and associated income taxes of \$101.82. Depreciation expense of \$28.22 (actual distribution plant and terminal facilities depreciation expense per customer) is added to the capital and tax cost to produce a total revenue requirement related to distribution plant and terminal facilities of \$130.04.

This revenue stream is provided by customers through the rates they pay. Staff used this revenue stream that would be available from new customers with average electrical usage to calculate the Company investment that can be made to render new service without applying either upward or downward pressure on the Company's overall revenue requirement. The revenue stream provides the authorized overall return on investment, with associated taxes, plus depreciation expenses associated with the Company's distribution plant and terminal facilities. Because the actual depreciation expense built into rates is based upon a gross investment that is now partially depreciated, it follows that the new investment can be an amount larger than the current embedded net investment. The composite of the authorized overall return on investment and associated taxes expressed as a percentage of rate base is 11.767 percent. The composite

depreciation rate for distribution and terminal facilities is 2.26 percent. The combined total of these two percentages (14.027 percent) represents the relationship of the current revenue stream to new gross investment. Dividing the revenue stream of \$130.04 by 14.027 percent produces the revenue neutral investment of \$927 which Avista can make to provide service to new residential customers. Attachment No. 5 summarizes similar calculations for other customer classes.

Even though the Company's embedded investment is split between investment in distribution plant and terminal facilities, Staff suggests that all of the recommended Company investment be applied toward the total cost of rendering service to the customer. Staff maintains that it is only important that the total value of the Company's investment be equal to the total embedded cost—not that the Company's investment be applied to both terminal facilities and distribution facilities in the exact proportion as are their embedded costs. Terminal facilities are defined as a transformer, meter, and service drop.

### ***Staff's Proposed Residential Allowance***

As discussed previously, Staff computed \$927 as the allowance that it believes can be supported by existing rates without putting upward pressure on rates. However, Avista currently provides meters to customers at no charge. Consequently, the value of a meter should be subtracted from Staff's proposed allowance so that the total investment by Avista in serving a new residential customer is approximately \$927. For residential customers, Avista reports the value of a meter is \$255. Thus, the proposed allowance, if meters are continued to be provided at no cost, is \$672 (\$927-\$255). Staff recommends rounding the allowance up to \$675.

Staff has reviewed in detail the allowances and the method of calculation as proposed by the Company. The Company's method, at least in theory, is nearly the same as the method used by Staff. The primary difference is that Staff's method uses a somewhat simplified direct calculation approach, while the Company's method uses a revenue requirement model that takes into account all details of the revenue requirement. Staff disagrees however, with the way in which Avista has used its revenue requirement model.

In computing allowances, Avista assumes that not all costs increase incrementally with the addition of a single new customer. As a result, the Company computes an allowance so that only about half of the system transmission and non-line extension distribution costs can be

covered by a customer's revenue after recovering the allowance. Staff strongly disagrees with this assumption. Staff believes that **all** costs increase incrementally with the addition of a single new customer. While the Company may not buy a new computer, hire another meter reader, or build new transmission with the addition of each new customer, each new customer contributes equally to the cause of these costs. If the full costs of providing service are not recovered from every customer, then costs continue to build, putting upward pressure on rates. Eventually, a rate increase is required in order for the Company to meet its revenue requirement. The Company admits that its current allowances are based on the assumption that all distribution and transmission costs increase incrementally with the addition of each new customer—the same assumption Staff is making in computing its proposed allowances.

For purposes of comparison to Staff's calculations, Staff utilized the same method as the Company to compute allowances, except assuming 100 percent coverage of all costs. Staff also did not escalate embedded transmission and distribution costs at a three percent rate like the Company, believing it is not consistent with an embedded cost approach. Using Avista's model and Staff's assumptions, the allowance for residential customers is calculated as \$910. This compares with \$927 as the allowance calculated using Staff's method.

For comparison purposes only, Staff compared the current allowances for Idaho Power and Utah Power to both Staff's and Avista's proposed allowances in this case. The comparison is shown in Attachment No. 6. Note that the embedded investment for each company is quite close. The estimated costs of terminal facilities are more variable, but still generally in the same range for each company. The current allowances for both Idaho Power and Utah Power are considerably different, but the important point to note is that both are significantly above their embedded investment. The allowance proposed by Avista is also significantly above its embedded investment, but it is more in line with the allowances of the other two utilities. Staff's proposal to set the allowances at the same level as Avista's embedded investment would result in proportionately lower allowances than the other utilities, but Staff contends this is proper in order to not put upward pressure on rates.

### **Residential Developments**

For residential developments, as shown in Attachment No. 7, Avista proposes to increase the total cost per lot 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. Because Primary, Secondary and Transformer costs increase by \$130 per lot under the proposed tariff, Avista proposes that the developer deposit or credit instrument also be increased \$130 per lot, from \$910 to \$1,040. However, if the developer provides the trenching within the development, the deposit or credit instrument required would be only \$760 per lot, reflecting Avista's average trenching cost savings of \$280 per lot ( $\$1,040 - \$280 = \$760$ ). Additionally, as the Company is proposing a revised residential allowance of \$1,300, the developer would receive a refund of \$940 if a cash deposit was made (\$1,300 allowance less \$360 service cost).

***Staff Position***

For residential developments, Attachment No. 7 shows a comparison of costs, allowances, refunds and deposits under the existing line extension policy and under both Avista's and Staff's proposals. Staff agrees with the Company that the Basic Cost per lot should be increased to \$1040 per lot, that the trenching credit should be increased to \$280, and that the total amount of the deposit should be \$760 per lot if the developer does the trenching. However, Staff disagrees with the allowance and the refund proposed by the Company, and consequently also with the manner in which deposits shall be required.

Staff proposes an allowance of \$675 per lot—the same allowance proposed for individual residential customers. In cases where Avista does the trenching, Staff recommends that developers be required to pay a nonrefundable cash payment of \$725 per lot, in addition to posting a refundable amount of \$315 per lot. In cases where the developer does his own trenching, Staff proposes that the developer pay a nonrefundable cash payment of \$445 per lot, in addition to posting a refundable amount of \$315 per lot.

The primary difference between Staff and the Company's proposals is that under Staff's proposal, the net cost to the developer is \$725 per lot, while under the Company's proposal the net cost is only \$100 per lot. If a developer does his own trenching, he would pay a net cost of \$445 per lot under Staff's proposal and receive a \$180 payment per lot under Avista's proposal. Note that under the Company's proposal, a developer who does his own trenching will

not only receive all of his investment back if the subdivision fills, but will receive more than he actually paid because of the additional payment from Avista of \$180 per lot.

Staff also wishes to point out that, although no changes are proposed in this regard, developers are responsible for the full cost of any line extension work done outside the subdivision, in addition to the cost of work inside the subdivision. Developers are not eligible for vested interest refunds for line extension work inside the subdivision; however, they are eligible for vested interest refunds for line extension work outside the subdivision. Staff makes these points because of observations it made in reviewing Avista's recent line extensions in subdivisions.

In reviewing all line extensions in Avista's Idaho service territory during the past two years, Staff examined separately all line extensions for developments. There were 46 residential developments reviewed. One very notable observation about each of these line extensions was that in no case were any charges assessed for work outside the development. The Company claims that no work outside the development needed to be done in any of these cases, thus no charges have been shown for work outside the subdivision. Staff finds this extremely unusual, but has no evidence to refute the Company's assertion. Staff wishes to point out that in other utility service areas, it is usually the case that at least some work needs to be done just to bring service to the outer edge of the subdivision. Staff admits however, that it did review at least a few instances in which the developers of large lot subdivisions were charged for line extensions to bring service to areas where future development is planned. Nevertheless, the lack of charges for work outside the subdivision for such a large number of cases raises the suspicions of Staff. Staff recommends that the Commission pay special attention to Avista's practices in developments in the future to insure that developers are properly charged and that Avista does not install facilities at its own expense in order to attract high margin customers in competitive areas.

### **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 (kWhs) per year. All commercial customers who use less than 72,000 kWhs 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 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 kWhs 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 Company proposes that line extension costs for commercial and industrial customers 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, Avista proposes that the line extension cost be based on the total estimated costs derived from internally published average costs.

### ***Staff Position***

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. This approach will appropriately distinguish between small and large commercial and industrial customers so that the allowance granted to each customer will properly reflect both the cost of serving each customer as well as the revenue each customer is expected to generate.

Staff wishes to reiterate however, that it believes the allowances per kilowatt-hour proposed by Avista are too high and that the allowances proposed by Staff should be accepted as an alternative. For Schedule 11 customers, Staff recommends an allowance of \$0.080 per kWh of estimated annual load. For Schedules 21 and 31, because the computed allowances are very close, Staff recommends that the allowance for both classes be set at \$0.060 per kWh of estimated annual load.

Staff also believes that the Basic Costs set forth in the tariff should include costs for both single-phase and three-phase service. While including the costs for both types of service in the tariff does complicate the tariff and add to its length, Staff does not believe it is acceptable to base three-phase extension costs on estimates derived from “internally published” average costs. Staff suggests that costs for three-phase service be included as an attachment or supplement to the main body of the tariff.

For industrial customers, Schedule 25, Staff recommends that allowances be determined on a case-by-case basis. There are only 14 customers currently on Schedule 25. Embedded cost calculations could be disproportionately influenced by only one or a few customers, thus the results may not be representative for a new customer in the class. Furthermore, each new customer is very unique in its needs for distribution facilities.

Staff’s proposed allowances for all customer classes are summarized in Attachment No. 8.

### **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 that may be necessary to install the extension, as well as items that 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 Position***

Staff has no objection to the Company's proposal to create a new category of costs called "Customer Requested Costs." The proposed change is mostly administrative and will not materially change the costs charged to the customer.

**Customer Minimum Usage**

Under the present tariff, customers who are estimated to use less than 4800 kWhs 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 4800 kWhs 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 kWhs would provide recovery of the service cost.

***Staff Position***

Avista proposes to lower the minimum annual residential energy usage for entitlement to an allowance from 4800 kWh to 2500 kWh. Staff believes this is reasonable. The purpose of a requirement that customers consume a minimum amount of energy is to guarantee that the Company has some means to recover at least a portion of the investment made to provide service. Under the reduced threshold, the Company would receive enough revenue within five years to fully recoup its investment in the service drop. Any additional investment in distribution facilities would not be recovered within this time frame. However, it is reasonable to assume that in the majority of cases, any residential dwelling which is vacated would be re-occupied in a short time, thereby resuming the generation of revenue and permitting the Company to continue to recover its investment.

### **Allowance for Apartments**

The residential allowance for dwellings that 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 Position***

Staff recommends that the residential allowance for dwellings that have more than four units (apartments) be decreased from \$600 to \$400 per unit. This proposed decrease in the allowance for these customers is approximately proportional to Staff's proposed decrease in the allowance for residential dwellings with less than four units (\$1000 to \$675).

### **Conversions and Relocations**

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, the Company contends 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 Position***

Staff supports the Company's proposed revision under the "Conversions and Relocations" section of the tariff that would relieve a customer from paying both the cost of new facilities plus the remaining value of existing facilities.

## **STAFF RECOMMENDATIONS**

1. Staff recommends that the continued use of average unit costs to compute line extension charges for individual residential customers be approved. Staff recommends that the average unit costs proposed by Avista be accepted.

2. Staff recommends that the Company be instructed that the average unit costs, if approved by the Commission, must be updated annually and that the updated costs are to be filed annually for Commission approval no later than February 1 of each year.

3. Staff recommends that the allowances proposed by the Company be rejected, and that the allowances proposed by Staff be accepted as an alternative. Staff's recommended allowances are \$675 for Schedule 1, \$0.080 per kWh of estimated annual energy usage for Schedule 11, and \$0.060 per kWh of estimated annual energy usage for Schedules 21 and 31.

4. For residential developments, Staff recommends that the Basic Cost be \$1040 per lot. Staff also recommends that if Avista does the trenching, developers be required to pay a nonrefundable cash payment of \$725 per lot and post \$315 per lot in cash or credit instrument to be refunded for each lot occupied within five years. If the developer does his own trenching, Staff recommends he be required to pay a nonrefundable cash payment of \$445 and post \$315 per lot in cash or credit instrument.

5. Staff recommends that the proposed allowances for Schedule 11, Schedule 21 and Schedule 31 be explicitly shown in the line extension tariff.

6. Staff recommends that the Company be put on notice that, as required by their tariff, the cost of all line extension work outside of a development that is necessary in order to provide service to the development must be charged to the developer requesting service. Avista should not build line extensions at its own expense simply to have facilities fronting or immediately adjacent to anticipated future developments.

7. Staff recommends that Avista be reminded that, as required by its tariff, customers paying the cost of a line extension that is subsequently utilized within five years by one or more additional customers are entitled to a refund for the cost of that share of the new line utilized by the subsequent customer(s).

8. Staff recommends that the Basic Costs set forth in the tariff include costs for both single phase and three-phase service.

9. Staff recommends approval of the Company's request to create a new category of line extension costs called "Customer Requested Costs."

10. Staff recommends approval of the Company's proposal to reduce from 4500 kWh/yr to 2500 kWh/yr the minimum annual usage amount for residential customers to be eligible for a line extension allowance.

11. Staff recommends that the residential allowance for dwellings having more than four units (apartments) be decreased from \$600 to \$400 per unit.

12. 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.

Respectfully submitted this        day of May 2000.

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Scott Woodbury  
Deputy Attorney General

Technical Staff: Rick Sterling  
Jean Jewell

SW:RS:va:umisc/comments/avue001.swr