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IDAHO PUBLIC UTILITIES COMMISSION

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**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

IN THE MATTER OF THE APPLICATION )  
OF AVISTA CORPORATION FOR THE )  
AUTHORITY TO INCREASE ITS RATES )  
AND CHARGES FOR ELECTRIC AND )  
NATURAL GAS SERVICE TO ELECTRIC )  
AND NATURAL GAS CUSTOMERS IN THE )  
STATE OF IDAHO )

CASE NO. AVU-E-08-01  
CASE NO. AVU-G-08-01

DIRECT TESTIMONY  
OF  
SCOTT L. MORRIS

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

1 I. INTRODUCTION

2 Q. Please state your name, employer and business  
3 address.

4 A. My name is Scott L. Morris and I am employed as  
5 the Chairman of the Board, President and Chief Executive  
6 Officer of Avista Corporation (Company or Avista), at 1411  
7 East Mission Avenue, Spokane, Washington.

8 Q. Would you briefly describe your educational  
9 background and professional experience?

10 A. Yes. I am a graduate of Gonzaga University with a  
11 Bachelors degree and a Masters degree in organizational  
12 leadership. I have also attended the Kidder Peabody School  
13 of Financial Management.

14 I joined the Company in 1981 and have served in a  
15 number of roles including customer service manager. In  
16 1991, I was appointed general manager for Avista Utilities'  
17 Oregon and California natural gas utility business. I was  
18 appointed President and General Manager of Avista Utilities,  
19 an operating division of Avista Corporation, in August 2000.  
20 In February 2003, I was appointed Senior Vice-President of  
21 Avista Corporation, and in May 2006, I was appointed as  
22 President and Chief Operating Officer. Effective January 1,  
23 2008, I assumed the position of Chairman of the Board,  
24 President, and Chief Executive Officer.

1 I am a member of the Western Energy Institute board of  
2 directors, a member of the Gonzaga University board of  
3 trustees, and deputy director of the Washington Roundtable.  
4 I also serve on the board of trustees of the Greater Spokane  
5 Incorporated, which was formerly two separate organizations,  
6 the Spokane Area Economic Development Council and the  
7 Spokane Regional Chamber of Commerce.

8 **Q. What is the scope of your testimony in this**  
9 **proceeding?**

10 A. I am testifying as the policy witness for the  
11 Company. I provide an overview of Avista Corporation and  
12 Avista Utilities. I describe Avista Utilities' overall  
13 utility operations, the Company's rate requests in this  
14 filing, and the primary factors driving the Company's need  
15 for general rate relief. I will provide an overview of some  
16 of the initiatives that we have undertaken in recent years  
17 to achieve operating efficiencies in an effort to mitigate a  
18 portion of the significant increase in costs that Avista, as  
19 well as other utilities in the industry, are experiencing.  
20 I will also briefly explain the Company's customer support  
21 programs that are in place to assist our customers.  
22 Finally, I will introduce each of the other witnesses  
23 providing testimony on the Company's behalf.

1 A table of contents for my testimony is as follows:

2	<u>Description</u>	<u>Page</u>
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10	Support Programs	23
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**Q. Are you sponsoring any exhibits in this proceeding?**

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A. Yes. I am sponsoring Exhibit No. 1 Schedule 1, pages 1 through 3. Page 1 is a diagram of Avista's corporate structure; page 2 includes a map showing Avista's total electric and natural gas service areas; and page 3 shows the detailed usage and number of customers for each customer class. Exhibit No.1, Schedule 2, is a newspaper article from the Lewiston Tribune dated January 13, 2008. These exhibits were prepared under my direction.

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**Q. Please describe Avista's current business focus for the utility and subsidiary operations.**

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A. The Company continues to work diligently to operate what I believe is a very efficient utility. The Company has historically run its operations with attention to minimizing expense while providing quality service and a high level of customer satisfaction. I will touch on some of our more recent efficiency improvements later in my

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1 testimony, such as our web redesign project, energy  
2 efficiency, and regional infrastructure efficiency  
3 programs.

4 Although we are making progress in improving the  
5 Company's financial condition, as shown by the recent  
6 upgrades in the Company's corporate credit ratings to  
7 investment grade by Moody's Investors Service in December  
8 2007 and Standard & Poor's in February 2008, we are still  
9 not as strong financially as we need to be. The Company  
10 continues to be below investment grade with FitchRatings.  
11 Timely rate relief through this filing is an important  
12 element in continuing our path to a healthy utility. With  
13 higher levels of capital spending required over the next  
14 several years, it is more important than ever that the  
15 Company remain financially healthy in order to attract  
16 capital investment and financing at the lowest cost  
17 possible. Company witness Mr. Malquist will discuss  
18 further the actions taken by the Company to improve cash  
19 flow, reduce debt, and our continuing efforts towards being  
20 a strong, healthy utility.

21 Our strategy continues to focus on our energy and  
22 utility-related businesses, with our primary emphasis on  
23 the electric and natural gas utility business. There are  
24 four distinct components to our business focus for the  
25 utility, which we have referred to as the four legs of a

1 stool, with each leg representing customers, employees, the  
2 communities we serve, and our financial investors. For the  
3 stool to be level, each of these legs must be in balance by  
4 having the proper emphasis. This means we must maintain a  
5 strong utility business by delivering efficient, reliable  
6 and high quality service, at a reasonable price, to our  
7 customers and the communities we serve, while providing an  
8 attractive return to our investors.

9 **Q. Please briefly describe Avista's subsidiary**  
10 **businesses.**

11 A. Avista Corp.'s primary subsidiary is the  
12 information and technology business, Advantage IQ,  
13 described below, which is headquartered in Spokane,  
14 Washington. On June 30, 2007, Avista completed the sale of  
15 the operations of Avista Energy to Coral Energy Holding,  
16 L.P., and certain of its subsidiaries, a subsidiary of  
17 Shell. In September 2007, Avista Energy paid a cash  
18 dividend of \$169 million from the cash proceeds to Avista  
19 Capital. The majority of those funds were dividended to  
20 Avista Corporation, redeploying those proceeds into the  
21 utility. Avista currently holds a 6.8% share in Avista  
22 Labs' successor company, ReliOn, which is held under Avista  
23 Capital. A diagram of Avista's corporate structure is  
24 provided on page 1 of Exhibit No.1, Schedule 1.

25 **Q. Please provide an overview of Advantage IQ.**

1           A.    Advantage IQ, formerly known as Avista Advantage,  
2 commenced operations in 1998 and is a provider of utility  
3 bill processing, payment and information services to multi-  
4 site customers.    Advantage IQ analyzes and presents  
5 consolidated bills on-line, and pays utility and other  
6 facility-related expenses for multi-site customers  
7 throughout North America, such as CSK Auto, Jack in the  
8 Box, Staples, and Big Lots, to name a few.    Information  
9 gathered from invoices, providers and other customer-  
10 specific data allows Advantage IQ to provide its customers  
11 with in-depth analytical support, real-time reporting and  
12 consulting services with regard to facility-related energy,  
13 waste, repair and maintenance, and telecom expenses.    In  
14 2007, Advantage IQ was awarded the ENERGY STAR® Sustained  
15 Excellence Award in recognition of its continued leadership  
16 in protecting our environment through energy efficiency.

17           **Q.    What is the status of the formation of a holding**  
18 **company?**

19           A.    In February 2006, Avista filed for regulatory  
20 approval of the proposed formation of a holding company  
21 (reorganization) with the Federal Energy Regulatory  
22 Commission (FERC) and the public utility commissions in  
23 Idaho, Washington, Oregon and Montana, conditioned on  
24 approval by shareholders.    On April 18, 2006, FERC issued  
25 its "Order Authorizing Disposition of Jurisdictional

1 Facilities" in Docket No. EC06-85-000, approving the  
2 Company's reorganization. Shareholder approval of the  
3 reorganization was granted at Avista Corp.'s Annual  
4 Shareholder meeting May 11, 2006. On June 30, 2006, the  
5 Idaho Public Utilities Commission issued an order approving  
6 Avista's reorganization application, based on a settlement  
7 in that state. On February 28, 2007, the Washington  
8 Utilities and Transportation Commission issued an order  
9 approving Avista's reorganization application, based on a  
10 settlement in that state. The Montana Commission has yet  
11 to act on Avista's Reorganization application, and the  
12 procedural schedule for consideration of the Company's  
13 application in Oregon has been suspended by agreement of  
14 the parties to allow additional time for discussion among  
15 the parties.

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## **II. OVERVIEW OF AVISTA UTILITIES**

18

**Q. Please briefly describe Avista Utilities.**

19

A. Avista Utilities provides electric and natural  
20 gas service within a 26,000 square mile area of eastern  
21 Washington and northern Idaho. The Company, headquartered  
22 in Spokane, also provides natural gas distribution service  
23 in southwestern and northeastern Oregon. A map showing  
24 Avista's total electric and natural gas service areas are  
25 provided in page 2 of Exhibit No. 1, Schedule 1.

1           As of December 31, 2007, Avista Utilities had total  
2 assets (electric and natural gas) of approximately \$3.2  
3 billion (on a system basis), with electric retail revenues  
4 of \$577 million (system) and natural gas retail revenues of  
5 \$432 million (system). As of December 2007, the Utility  
6 had 1,473 full-time employees.

7           Avista has a long history of innovation and  
8 environmental stewardship. At the turn of the 20<sup>th</sup> century,  
9 the Company built its first renewable hydro generation  
10 plant on the banks of the Spokane River. In the 1980's,  
11 Avista developed an award-winning biomass plant (Kettle  
12 Falls) that generates energy from wood waste.

13           To the future, Avista as well as other utilities are  
14 facing new state and federal mandates for renewable energy  
15 and carbon control standards. For example, Washington's  
16 Senate Bill 6001 and Initiative 937 require certain public  
17 and private utilities to produce 15 percent of their power  
18 from new renewable resources by 2020, not including legacy  
19 hydro production, and to eliminate the option of coal-fired  
20 generation because of carbon emission limitations.  
21 Recognizing these changes, the Company dropped all new coal  
22 generation in its 2007 electric IRP, instead relying on  
23 natural gas, renewables, and energy efficiency. Today,  
24 Avista has one of the smallest carbon footprints in the  
25 U.S.

1           **Q. Please describe Avista Utilities' Idaho electric**  
2           **and natural gas utility operations.**

3           A. Of the Company's 325,645 electric and 298,411  
4 natural gas customers (at year end 2007), 120,266 and  
5 71,773, respectively, were Idaho customers. The Company  
6 serves the Idaho counties of Benewah, Bonner, Boundary,  
7 Clearwater, Idaho, Kootenai, Latah, Lewis, Nez Perce, and  
8 Shoshone. Lumber and wood products manufacturing is the  
9 dominant industry in our Idaho service area. Approximately  
10 33% of 2007 Idaho electric retail usage was from  
11 residential customers, with 29% from commercial, 35% from  
12 industrial customers, and 2% from pumping customers.  
13 Approximately 46% of natural gas retail revenues were from  
14 residential customers, and 15% from commercial and 39%  
15 from industrial and transportation customers. The Company  
16 has seven transportation customers in Idaho. Additional  
17 details of usage by customer class are shown on page 3 of  
18 Exhibit No. 1, Schedule 1.

19           As detailed in the Company's 2007 electric Integrated  
20 Resource Plan, Avista expects retail electric sales growth  
21 to average 2.3% annually for the next ten years and 2.0%  
22 over the next twenty years in Avista's service territory,  
23 primarily due to increased population and business growth.  
24 As stated earlier, while the overall economy is slowing on  
25 a national basis, Kootenai County is still growing. In

1 2007, employment growth in Kootenai County ranked in the  
2 top 5% of all metropolitan areas. Two big drivers of job  
3 growth in the past has been in the financial sector and in  
4 the leisure sector, where Kootenai County had the 8<sup>th</sup> and  
5 38<sup>th</sup> respectively, fastest employment growth of the 450  
6 metropolitan areas in the U.S. for 2007. This growth will  
7 continue to drive demand for new plant investment, which  
8 underscores the need for timely recovery of our capital  
9 investments.

10 Based on our 2007 Natural Gas Integrated Resource  
11 Plan, in Idaho the number of customers is projected to  
12 increase at an average annual rate of 3.0%, with demand  
13 also growing at 3.0% per year. The demand growth rate for  
14 natural gas is tied to increases in population and the  
15 number of businesses in Avista's service territory, coupled  
16 with expected conversions to natural gas from electric and  
17 oil space heat and electric water heating.

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1 **III. RATE REQUESTS**

2 **Q. Please provide an overview of Avista's electric**  
3 **rate request in this filing.**

4 A. Through this filing the Company is requesting that  
5 the Commission grant an electric revenue increase of \$32.3  
6 million or 15.8%<sup>1</sup>. The Company's request is based on a  
7 proposed rate of return of 8.74% with a common equity ratio  
8 of 47.94% and a 10.8% return on equity. Mr. Hirschhorn has  
9 proposed to spread the revenue increase based on an equal  
10 percentage to each service (rate) schedule. The Company is  
11 proposing to raise the monthly residential basic charge to  
12 \$4.60 from the current \$4.00 charge.

13 The monthly bill for a residential customer using an  
14 average of 977 kWhs per month would increase from \$67.38 to  
15 \$78.08 per month, an increase of \$10.70 or 15.9%. Mr.  
16 Hirschhorn will provide additional details related to rate  
17 spread and rate design.

18 **Q. What is Avista's natural gas rate request in this**  
19 **filing?**

20 A. With regard to natural gas, the Company is  
21 requesting an increase of \$4,725,000 or 5.8%. As with the  
22 electric increase, the Company's request is based on a  
23 proposed rate of return of 8.74% with a common equity ratio  
24 of 47.94% and a 10.8% return on equity. The Company is

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<sup>1</sup> The proposed increase to base retail rates is 16.7%, but the overall bill impact to customers is 15.8%.

1 proposing to move customer class rates of return  
2 approximately one-half way to unity. The monthly bill for a  
3 residential customer using an average of 65 therms per month  
4 would increase from \$75.14 to \$80.05 per month, an increase  
5 of \$4.91 or 6.5%. The proposed rate spread for each natural  
6 gas customer class is shown in the illustration below.

7

8

**Illustration 1**

9

10 Proposed		11 <u>Increase</u>
12	<u>Service Schedule</u>	
	General Service Schedule 101	6.5%
13	Large General Service Schedule 111/112	3.3%
14	Interruptible Sales Service Schedule 131/132	4.8%
15	Transportation Service Schedule 146	
16	(excluding natural gas costs)	<u>0.9%</u>
17	<b>Overall Increase</b>	<b>5.8%</b>

18

19 The Company is proposing to raise the residential basic  
20 charge to \$4.00 from the current \$3.28. The Company is also  
21 proposing to discontinue Schedules 121 and 122, High Annual  
22 Load Factor Large General Service. Mr. Hirschhorn will  
23 address these rate spread and rate design issues.

24 **Q. Before you continue with your testimony, would**  
25 **you please briefly explain some of the major factors**  
26 **causing an increase in Avista's costs to provide service to**  
27 **customers?**

28 **A. Yes. This case is about more than just year-**  
29 **over-year changes in costs, such as power costs, fuel,**

1 materials and supplies, and labor. We are also  
2 experiencing major cost impacts related to environmental  
3 compliance and litigation related to the preservation of,  
4 what have historically been, our low-cost resources that we  
5 have used for decades to serve our customers. For example,  
6 as we will explain in our testimony to follow, we are  
7 requesting recovery of major costs related to relicensing  
8 the Spokane River Hydroelectric projects, new lease  
9 obligations related to the bed and banks of the Clark Fork  
10 River in the State of Montana upstream of our Cabinet Gorge  
11 and Noxon Rapids hydroelectric projects, costs associated  
12 with efforts to resolve the level of dissolved gas  
13 downstream of Cabinet Gorge during periods when we spill  
14 water, and significant costs to comply with new mercury  
15 emission limitations in the State of Montana.

16 In addition, the Company is currently being required  
17 to add significant new transmission and distribution  
18 facilities, including strengthening the "backbone" of our  
19 system, due in part to customer growth in our service area,  
20 as well as to meet regional and national reliability  
21 standards. While the overall economy is slowing on a  
22 national basis, Kootenai County is still growing. Because  
23 the cost of concrete, steel, copper, aluminum and other  
24 materials have sky-rocketed in recent years, the costs of  
25 these new facilities are significant, and are another major

1 contributing factor in our request for rate relief in this  
2 filing.

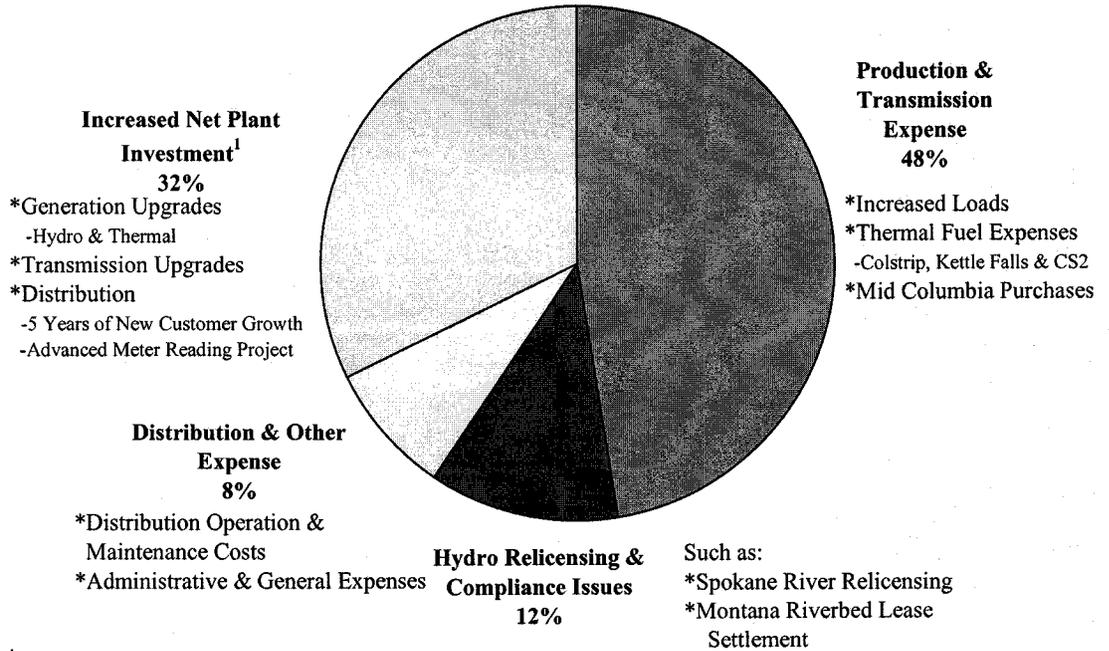
3           However, you will also see in our testimony that we are  
4 not just sitting on the sidelines as these costs go up. We  
5 will identify and explain a number of efficiency measures  
6 that we have undertaken recently in an effort to mitigate  
7 the overall cost impacts to our customers. In addition, we  
8 have a history of working cooperatively with our local  
9 community action agencies, as well as making it a priority  
10 within our Company to maintain meaningful programs to assist  
11 our customers that are least able to pay their energy bills.  
12 I will summarize some of those programs later in my  
13 testimony.

14           **Q. What are the primary factors causing the Company's**  
15 **request for an electric rate increase in this filing?**

16           A. The Company's electric general rate case is based  
17 on a 2007 test year and 2009 pro forma period data. As  
18 shown in Illustration 2, the Company's electric request is  
19 driven by changes in various operating cost components, but  
20 primarily power supply costs (48%), plant investment or rate  
21 base growth associated with generation, transmission and  
22 distribution plant (32%) and by various hydro relicensing  
23 efforts impacting the Utility (12%).

1 **Illustration 2**

2 **Primary Electric Revenue Requirement Factors**



14 <sup>1</sup>Includes return on investment, depreciation and taxes, offset by the tax benefit of interest.

15

16 As explained by Company witness Mr. Johnson, the level

17 of Idaho's share of power supply expense has increased by

18 approximately \$33.4 million (\$94.3 million on a system

19 basis) from the level currently in base rates.

20 This significant increase in power supply expense over

21 the expense currently in base rates is based on numerous

22 factors, including higher retail loads, reduced hydro

23 generation, increased fuel costs, increased Mid Columbia

24 purchases, and increased transmission expense.

1           Gross plant additions of approximately \$236.5 million  
2 (Idaho allocation) are driven primarily by increases in  
3 investments in distribution plant which was \$107.2 million  
4 from 2002 to 2007, mainly due to customer growth and the  
5 inclusion of the AMR project investment. Intangible and  
6 production plant increased by \$27.6 million in that same  
7 time period, related to the hydro relicensing and compliance  
8 efforts by the Company. In addition to the hydro  
9 relicensing and compliance efforts, increases of \$82.6  
10 million for additional production and transmission  
11 investment and \$19.1 million for general plant have  
12 increased overall gross plant. Other Company witnesses will  
13 discuss these issues further in their testimony.

14           **Q. What are the primary factors driving the Company's**  
15 **request for a natural gas rate increase?**

16           A. The Company's natural gas request is driven by  
17 changes in various operating cost components, but primarily  
18 the addition of the Jackson Prairie expansion and the  
19 completion of the Advanced Meter Reading projects, both  
20 planned for completion in the fourth quarter of 2008. This  
21 causes an increase in the fixed costs of providing natural  
22 gas service to customers.

23           **Q. The proposed rate increase is related to changes**  
24 **in the fixed costs of providing natural gas service to**

1 customers. Is the Company proposing any changes related to  
2 the cost of natural gas in this case?

3 A. No. Avista is not proposing changes in this filing  
4 related to the cost of natural gas included in customers'  
5 current rates. Changes in natural gas costs are addressed  
6 in the annual purchased gas adjustment (PGA) filings.

7

8 **IV. COST DRIVERS FOR THE INDUSTRY AND AVISTA**

9 Q. The utility industry, as a whole, is facing  
10 significant increases in certain costs. Is Avista facing  
11 similar cost increases, and if so, what is driving these  
12 cost increases?

13 A. Yes. Avista, along with the utility industry as  
14 a whole, is facing significant cost increases. Costs of  
15 steel, copper, cement, all of which are primary raw  
16 material components in our business, have been increasing  
17 in price in national and international commodity markets.  
18 Given that these commodities are key inputs into conductor,  
19 transformers, vaults, etc., our costs have risen sharply.  
20 In a September 2007 report prepared by the Brattle Group  
21 for The Edison Foundation, they summarize the state of  
22 materials in our industry. They found:

23 1. "Dramatically increased raw materials prices  
24 (e.g., steel, cement) have increased construction  
25 cost directly and indirectly through the higher  
26 cost of manufactured components common in utility

1 infrastructure projects. These cost increases have  
2 primarily been due to high global demand for  
3 commodities and manufactured goods, higher  
4 production and transportation costs (in part owing  
5 to high fuel prices), and a weakening U.S. dollar."  
6 (page 1) Increased global demand for commodities,  
7 as noted in this report, is driven primarily by the  
8 robust growth in China, India, Russia, and to a  
9 lesser extent, the United States.

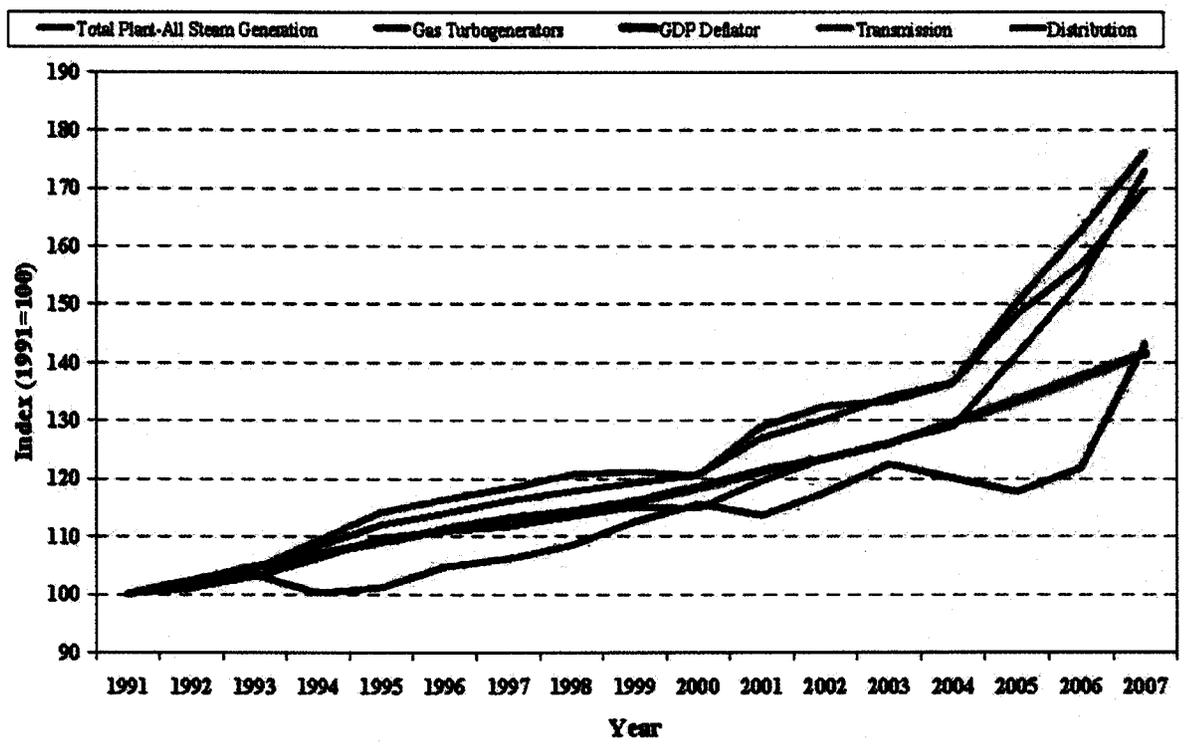
10 2. "The price increases experienced over the past  
11 several years have affected all electric sector  
12 investment costs. In the generation sector, all  
13 technologies have experienced substantial cost  
14 increases in the past three years, from coal plants  
15 to windpower projects. Large proposed transmission  
16 projects have undergone cost revisions, and  
17 distribution system equipment costs have been  
18 rising rapidly." (page 2)

19  
20 Illustration 3 on the next page is representative of  
21 what is happening to infrastructure costs nationally. As  
22 shown in the chart below, it is apparent that starting in  
23 2003, costs of distribution, transmission and generation  
24 infrastructure increased at a far more significant rate  
25 than the overall economy, as measured by the GDP deflator.

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Illustration 3

**National Average Utility Infrastructure Cost Indices**



Sources: The Handy-Whitman® Bulletin, No. 165 and the U.S. Bureau of Economic Analysis. Simple average of all regional construction and equipment cost indexes for the specified components. "Rising Utility Construction Costs: Sources and Impacts" Prepared by The Brattle Group for The Edison Foundation, September 2007

Company witness DeFelice will provide further detail on the rising cost of materials.

**Q. What are some of the other cost drivers for Avista?**

**A.** In addition to the significant increase in materials related to capital projects, Avista is now experiencing major costs related to Spokane River relicensing, the Montana hydroelectric litigation and

1 resulting riverbed lease payments, and the mitigation of  
2 dissolved gas at the Cabinet Gorge Project. Further, The  
3 North American Electric Reliability Corporation (NERC) has  
4 developed national reliability standards for utilities to  
5 follow to ensure interconnected system reliability which  
6 was mandated as part of The Energy Policy Act of 2005.  
7 These issues, driven primarily by new legislative  
8 initiatives, litigation, and compliance with new and  
9 existing regulatory requirements, such as new reliability  
10 requirements, have resulted in significant increases in  
11 costs associated with owning and operating the generation,  
12 transmission, and distribution systems.

13 **Q. Please describe the status of the Company's**  
14 **effort to relicense the Spokane River Hydroelectric**  
15 **Projects.**

16 A. Avista's license for the Spokane River  
17 Hydroelectric Project (105 aMW) expired in August 2007. At  
18 the expiration of the existing license, FERC automatically  
19 issued Avista an Annual License for the Project, and will  
20 continue to do so each year until the outstanding issues  
21 are resolved. In July 2005, the Company submitted two  
22 license applications to the FERC, requesting one license  
23 for the Post Falls Project and a separate license for the  
24 remainder of the Spokane River Project. We expect a new  
25 license to be issued by FERC by the end of 2008. Company

1 witness Mr. Howard provides additional discussion related  
2 to these efforts in his testimony. Company witness Ms.  
3 Andrews discusses the nature of the Company's request in  
4 this case.

5 **Q. Please summarize the Montana hydroelectric**  
6 **litigation and lease payments for state-owned riverbeds?**

7 A. On October 19, 2007, the Company reached a  
8 settlement with the State of Montana with regard to the  
9 amount of damages the Company owed for hydroelectric  
10 facilities located on state-owned riverbeds. In October  
11 2003, a lawsuit was originally filed against private owners  
12 of hydroelectric dams in Montana, including Avista. In this  
13 lawsuit, the state of Montana alleged that the  
14 hydroelectric facilities are located on state-owned  
15 riverbeds and the owners of the dams have never paid lease  
16 payments to the state pursuant to the provisions of  
17 Montana's Hydroelectric Resources Act. The lawsuit  
18 requested lease payments prospectively and also requested  
19 damages for trespassing and unjust enrichment for periods  
20 of time dating back to the construction of the respective  
21 dams in the 1950s.

22 Pursuant to the settlement, reached with Montana,  
23 Avista has agreed to make lease payments in the initial  
24 amount of \$4 million per year beginning February 1, 2008,  
25 for the calendar year 2007, and continuing through calendar

1 year 2016, adjusted each year by the Consumer Price Index  
2 (CPI). On or before June 30, 2016, Avista and the state of  
3 Montana will determine whether the annual lease payments  
4 remain consistent with the principles of law as applied to  
5 the facts and negotiate an adjusted lease payment for the  
6 remaining term of Avista's Federal Energy Regulatory  
7 Commission license for its hydroelectric facilities on the  
8 Clark Fork River, which expires in 2046. The settlement  
9 contains provisions that could reduce the amount of  
10 Avista's lease payments as a result of future judicial  
11 determinations in related cases or governmental actions.  
12 Avista will not make any lease payments for periods prior  
13 to 2007.

14 Company witness Mr. Vermillion will discuss this  
15 settlement further in his testimony. Ms. Andrews discusses  
16 the impact on the Company's request in this case.

17 **Q. Please provide an overview of the capital**  
18 **additions and requirements impacting the Company, and the**  
19 **amounts included in this case.**

20 A. As a combination electric and natural gas  
21 utility, over the next few years, capital will be required  
22 for customer growth, investment in generation, transmission  
23 and distribution facilities for the electric utility  
24 business, as well as necessary maintenance and replacements  
25 of our natural gas systems.

1           The amount of capital expenditures planned for 2008-  
2           2009 is approximately \$390 million. For 2008 alone, these  
3           costs equate to a total of \$190 million. Total net rate  
4           base at December 31, 2007 was \$1.7 billion for the total  
5           Company; therefore, these planned capital additions  
6           represent substantial new investments. A few of the major  
7           capital expenditure items for 2008 include \$46 million for  
8           electric transmission and distribution upgrades, \$43  
9           million for electric and natural gas customer growth, \$21  
10          million for natural gas system upgrades, \$9 million for  
11          environmental (associated with the Spokane River  
12          relicensing and the 2001 Clark Fork River license  
13          implementation issues), \$26 million for generation  
14          upgrades, and \$15 million for Jackson Prairie capacity and  
15          deliverability expansions.

16          Ms. Andrews provides additional details related to  
17          these capital requirements.

18

19          **V. OPERATING EFFICIENCIES AND CUSTOMER SUPPORT PROGRAMS**

20                 **Q. Has the Company considered the economic impacts**  
21                 **of the Company's rate proposals to its customers?**

22                 A. Yes. Through my involvement with area chambers  
23                 and other community agencies, I am particularly mindful of  
24                 the impact rate increases have on our customers,  
25                 especially those on limited incomes. Avista will continue

1 to aggressively manage costs to achieve the appropriate  
2 balance in providing safe and reliable service at cost-  
3 effective rates, while rebuilding a financially healthy  
4 utility. In the long term, a financially healthy utility  
5 will foster customer satisfaction and enable the utility  
6 to finance, under reasonable terms, the new infrastructure  
7 required over time to serve our customers.

8 **Q. Is Avista communicating with its customers to**  
9 **explain what is driving increased costs?**

10 A. Yes. The Company strives to proactively  
11 communicate with its customers in a number of ways:  
12 electronic customer communications, one-on-one customer  
13 interactions through field personnel and account  
14 representatives, proactive and reactive media contacts,  
15 and through our employees' involvement in community,  
16 business and civic organizations, to name a few. We  
17 believe our communications are helping our customers, and  
18 the communities that we serve, better understand the  
19 issues faced by the Company, such as increased  
20 environmental mitigation, infrastructure investment, and  
21 generation constraints, all of which have lead to higher  
22 costs for our customers.

23 As an example, an article in the Lewiston Tribune on  
24 January 13, 2008 attached as Exhibit No. 1, Schedule 2,  
25 describes very accurately some of the issues faced by the

1 Company - i.e., growth in customer base, hydroelectric  
2 generation upgrades, environmental compliance, and  
3 increased natural gas prices. The following is an excerpt  
4 from the article:

5 "Avista is expanding its capacity to  
6 deliver natural gas and electricity to meet  
7 the needs of its customer base, which has  
8 grown by 40,000 since 2002.

9  
10 Improvements are being made to existing  
11 Avista operations, such as boosting hydro  
12 generation from 554 to 582 megawatts at  
13 Noxon Rapids along the Clark Fork River in  
14 Montana. One megawatt is enough to power  
15 650 homes.

16  
17 Some options are off the table as Avista  
18 tries to keep pace with growth. State and  
19 federal environmental regulations along  
20 with public opinion make it unlikely that  
21 new dams will be constructed for  
22 hydropower. Emission standards in  
23 Washington essentially ban coal for  
24 electrical generation.

25  
26 That leaves natural gas as one of the few  
27 viable choices for new electrical  
28 generation because it is relatively  
29 affordable and environmentally friendly.  
30 The biggest single share of Avista's new  
31 generation will come from the natural gas-  
32 fired plant near Rathdrum. Avista will  
33 have first rights to all of the electricity  
34 from the plant starting in 2010.

35  
36 But natural gas prices have been rising too  
37 as more utilities turn to it for electrical  
38 generation. The natural gas pipelines from  
39 Canada that Avista uses once ended in the  
40 Northwest. Now some lines have been  
41 extended to the Midwest, putting additional  
42 pressure on prices."

43  
44 We have made extensive efforts to communicate with  
45 our customers concerning the cost challenges that we are

1 facing, and we believe these communications are helping  
2 customers better understand the factors that are causing  
3 increased costs for Avista, and the utility industry in  
4 general.

5 **Q. What initiatives has the Company undertaken in**  
6 **recent years to achieve operating efficiencies in an**  
7 **effort to mitigate a portion of the cost increases being**  
8 **experienced by the utility industry?**

9 A. Avista is constantly looking for improvements in  
10 the way it provides services to its customers, as well as  
11 ways to reduce the costs of those services. Ideas are  
12 generated through periodic evaluation of its operating  
13 practices, and communications with other utilities, and  
14 other industry participants, across the country on best  
15 practices. The Company has recently implemented a number  
16 of programs that increase efficiency and enhance customer  
17 service. Some of these noteworthy programs are summarized  
18 below:

- 19 • Energy Efficiency. - The Company offers energy  
20 efficiency services to electric and natural gas  
21 residential, commercial, and industrial  
22 customers. In March 2008, modifications to the  
23 program offerings were approved in the State of  
24 Idaho. The modifications will further broaden  
25 the technical and financial support Avista will  
26 provide to our customers to help fund energy  
27 efficiency improvements. In addition to helping  
28 our customers with energy efficiency services,  
29 Avista too has been evaluating opportunities to  
30 implement energy efficiency measures throughout  
31 the Company. For example, the Company is now in  
32 the process of upgrading the 50 year old

1 heating, ventilation and air conditioning system  
2 at the Spokane main campus facilities.  
3

- 4 • Mobile Dispatch. - The Mobile Dispatch Project is  
5 designed to achieve a number of financial and  
6 customer service benefits, including increased  
7 productivity, enhanced customer service, reduced  
8 costs, and improved field safety. This project  
9 uses wireless communications between the home  
10 office and laptop computer in service trucks to  
11 dispatch field crews. As Company witness Mr.  
12 Kopczynski will explain, these capabilities allow  
13 for increased field productivity, efficient order  
14 dispatch, enhanced customer service with  
15 efficient order booking, improved safety, and  
16 reduced costs required to perform an equal amount  
17 of work.  
18
- 19 • Outage Management System. - As Mr. Kopczynski  
20 will explain, this tool is linked to the  
21 Company's Geographic Information System (GIS  
22 mapping system). It allows the Company's  
23 distribution facilities to be linked to  
24 individual customer service points in a three  
25 phase computer based model. The connectivity  
26 provides analysis tools to determine outage areas  
27 and affected protective devices. Switching points  
28 within the computer based model enable semi-real  
29 time reconfiguration of Avista's distribution  
30 system. Accurate outage data can be collected for  
31 all incidents providing feedback to improve  
32 reliability and outage statistics which can be  
33 monitored in real time to indicate the severity  
34 of major events and assist in resource planning.  
35 These capabilities allow for quicker restoration  
36 of electrical service for our customers, thereby  
37 reducing labor expense and enhancing customer  
38 service.  
39
- 40 • Web Redesign Project. - In January 2008, the  
41 Company completed the redesign of  
42 www.avistautilities.com. The primary objective  
43 of this project was to enhance customer  
44 satisfaction through the deployment of several  
45 self service options, such as open/close/move,  
46 reporting and making payment arrangements,  
47 enrolling in Comfort Level Billing, and/or  
48 Automatic Payment Service (APS). Further,  
49 customers have access to tools to help analyze

1 their bills and are provided with meaningful and  
2 timely information to make informed energy  
3 management choices. The primary objective is to  
4 achieve a 10% reduction in the Company's Contact  
5 Center's total call volume by referring customers  
6 to the new and enhanced self-service options.  
7

- 8 • Outsourced Bill Printing and Mailing Services. -  
9 As described further by Mr. Kopczynski, Avista  
10 recently outsourced all of the Companies bill  
11 printing and mailing services. The project  
12 objectives were to move bill printing, inserting  
13 and mailing offsite and leverage core  
14 competencies of the provider, to obtain disaster  
15 recovery for sustainable operations and avoiding  
16 the cost of duplicate data storage, ensure daily  
17 print volume flexibility and scalability, to  
18 reduce costs for bill print, inserting and  
19 mailing, and to maximize technology.  
20

- 21 • Regional Infrastructure Efficiency. - Spokane's  
22 Joint Utilities Coordination Council was formed  
23 to bring together regional municipalities,  
24 utility companies, telecommunications providers,  
25 sewer, water and even the railroad to coordinate  
26 construction activities on an annual basis.  
27 Avista, in partnership with the City of Spokane,  
28 hosts this meeting every February, just prior to  
29 the beginning of the construction project season.  
30 Municipalities and utilities share their project  
31 plans and schedules so as to increase the  
32 coordination and mitigate the risk of unknown  
33 projects. The efforts of the Joint Utilities  
34 Coordination Council have resulted in greater  
35 coordination and efficiencies across the Spokane  
36 region.  
37

38 **Q. Does the Company have programs in place to**  
39 **mitigate the impacts on customers of the proposed rate**  
40 **increase?**

41 A. Yes. Avista Utilities offers a range of programs  
42 to help customers who have difficulty paying their energy  
43 bills. Some programs are in cooperation with local Idaho  
44 community action agencies, who are specialized in

1 targeting assistance where it is most needed. We are very  
2 aware of the impacts energy costs have on our customers.  
3 As a result, we offer programs that focus on the following  
4 criteria:

- 5 - Direct financial assistance
- 6 - Wise use of energy through education and efficiency
- 7 - Bill payment assistance plans
- 8 - Community initiatives to reduce basic living costs

9  
10 Mr. Kopczynski provides additional detail in his  
11 testimony concerning other programs designed to assist  
12 customers:

- 13 • Energy efficiency programs. Avista Utilities  
14 offers energy efficiency services to electric  
15 and natural gas residential, commercial, and  
16 industrial customers. The funding for these  
17 programs was increased substantially as a result  
18 of our last general rate case.  
19
- 20 • Project Share. Project Share is a voluntary  
21 program allowing customers to donate funds that  
22 are distributed through community action  
23 agencies to customers in need. In addition to  
24 the customer and employee contributions of  
25 \$88,910 in Idaho, Avista shareholders  
26 contributed \$50,000 to the program in 2007.  
27
- 28 • Comfort Level Billing. The Company offers the  
29 option for customers to pay the same bill amount  
30 each month of the year by averaging their annual  
31 usage.  
32
- 33 • Payment arrangements. The Company's Contact  
34 Center Representatives work with customers to  
35 set up payment arrangements to pay energy bills.  
36
- 37 • CARES program. Customer Assistance Referral and  
38 Evaluation Services provides assistance to  
39 special-needs customers through access to  
40 specially trained (CARES) representatives who  
41 provide referrals to area agencies and churches

1 for help with housing, utilities, medical  
2 assistance, etc.  
3

4 • Customer service automation. Customers are able  
5 to access Avista's Interactive Voice Response  
6 system (IVR) for automated transactions to enter  
7 their own payment arrangements, listen to outage  
8 messages and conduct other business such as  
9 obtaining account balances and requesting a  
10 duplicate bill.  
11

12 **Q. Has the Company included any other rate mitigation  
13 proposals in this case?**

14 A. Yes. The Company is very aware of the impact  
15 increases in electric and natural gas rates have on our  
16 customers. In addition to the other rate mitigation and  
17 customer service programs described above, the Company has  
18 also included a "rate mitigation adjustment" in power supply  
19 expense. As explained by Company witness Mr. Kalich, this  
20 adjustment will reduce power supply expense by increasing  
21 the amount of hydroelectric energy otherwise available to  
22 the Company in the Dispatch Model during the pro forma  
23 period. This mitigation adjustment serves to reduce our  
24 revenue requirement request by nearly \$4.5 million below  
25 what it otherwise would have been in this case.

26 Any excess power supply expenses not included in base  
27 rates would later be captured in the PCA mechanism, subject  
28 to the 90/10 sharing, until those costs are trued-up in the  
29 Company's next general rate case. By keeping some of this  
30 expense out of base rates, as well as sharing in the excess

1 power supply costs in a subsequent PCA filing, the overall  
2 rate impact on our customers will be reduced.

3 **Q. Are there other noteworthy accomplishments that**  
4 **you would like to address?**

5 A. Yes. There are several items of which I am  
6 particularly proud which recognizes both the accomplishments  
7 and excellence of Avista, and its employees:

- 8 • In April 2007, the Company received the  
9 *Outstanding Stewardship of America's Waters*  
10 award in recognition of its cooperative  
11 recreational stewardship/fishery enhancement  
12 project on Lake Pend Oreille. Avista received  
13 the *Outstanding Stewardship of America's Rivers*  
14 award, in 2006, from the National Hydropower  
15 Association (NHA), recognizing its habitat  
16 preservation and restoration work in the Clark  
17 Fork River basin.  
18
- 19 • In November 2007, the Company joined the Chicago  
20 Climate Exchange (CCX), the world's first and  
21 North America's only voluntary, legally binding  
22 integrated greenhouse gas emission reduction,  
23 registry and trading system. Members who exceed  
24 emissions reduction targets can sell or bank  
25 surplus allowances, the benefits of which will  
26 accrue to the Company and our customers.  
27
- 28 • In January 2008, in addition to the rollout of  
29 the Company's newly updated website  
30 ([www.avistautilities.com](http://www.avistautilities.com)), as described earlier,  
31 the Company launched "Every Little Bit", an  
32 online promotional campaign which integrates all  
33 of the Company's energy efficiency programs into  
34 one location. New tools were also added to the  
35 site to help customers better understand and  
36 manage their utility bills and participate in  
37 our energy efficiency programs. The various  
38 upgrades to the website will make it easier for  
39 our customers to do business with the Company.  
40  
41



1 financial health, its near term capital requirements, the  
2 proposed capital structure, and the overall rate of return  
3 proposed by the Company. Mr. Malquist explains that:

- 4 • Avista's plans call for significant capital  
5 expenditure requirements for the utility  
6 over the next three to five years to assure  
7 reliability in our energy systems, and to  
8 keep pace with regional growth and customer  
9 demand. Capital expenditures are planned  
10 for 2008-2009 of approximately \$390 million  
11 for customer growth, investment in  
12 generation, transmission and distribution  
13 facilities for the electric utility business  
14 as well as necessary maintenance and  
15 replacements of our natural gas utility  
16 systems. Avista needs adequate cash flow  
17 from operations to fund these requirements.  
18
- 19 • Avista's corporate rating from Standard &  
20 Poor's is currently BBB-. Avista Utilities  
21 should operate at a level that will support  
22 a strong investment grade credit rating,  
23 meaning at least a strong "BBB" or weak "A".  
24 The Company's financial performance has  
25 improved; however, we have not improved  
26 financial ratios to a level that would  
27 result in a strong investment grade credit  
28 rating.  
29
- 30 • We have made solid progress in improving our  
31 financial health by improving our cash flow,  
32 managing our costs and paying down debt and  
33 refinancing debt at lower rates. The  
34 Company plans to issue up to \$350 million of  
35 secured, fixed rate bonds during 2008 to  
36 fund existing debt maturities as well as to  
37 repay funds borrowed under our credit  
38 facility. Further, the Company plans to  
39 obtain a portion of our capital requirements  
40 through equity issuance.  
41

42 The Company has proposed an overall rate of return of  
43 8.74% including a 47.94% equity ratio and an 10.8% return on  
44 equity.



1 and future resource plans. He will also discuss Company  
2 hydroelectric upgrades, the Montana riverbed lease  
3 agreement, current hydro relicensing issues, mercury  
4 abatement at Colstrip, and Jackson Prairie storage. Mr.  
5 Vermillion explains:

- 6 • Avista's electric generation portfolio, including  
7 power supply operations.
- 8 • The Company is in an annually balanced-to-surplus  
9 energy position through 2017 with the addition of  
10 Lancaster, with the Company's net resource  
11 position becoming deficient in 2018.
- 12 • The Company's decision to join the Chicago Climate  
13 Exchange.
- 14 • Avista's risk management policy for energy  
15 resources, including the electric hedging plan.  
16

17 Mr. Clint Kalich, Manager of Resource Planning & Power  
18 Supply Analyses, will describe the Company's AURORA<sub>AMP</sub> model  
19 (Dispatch Model) inputs, assumptions, and results related to  
20 the economic dispatch of Avista's resources to serve load  
21 requirements, and market forecast of electricity prices. He  
22 explains:

- 23 • The key assumptions driving the Dispatch Model's  
24 market forecast of electricity prices. This  
25 discussion includes the variables of natural gas,  
26 Western Interconnect loads and resources, and  
27 hydroelectric conditions.
- 28 • The model dispatches Avista's resources and  
29 contracts in a manner that maximizes benefits to  
30 customers.
- 31 • The use of quantitative rate-period loads for  
32 2009, for modeling pro forma net power supply  
33 expenses.
- 34 • The output results from the model, including  
35 thermal generation and short-term wholesale sales  
36 and purchases, were provided to Mr. Johnson to

1 incorporate into the power supply pro forma  
2 adjustments.

- 3 • The inclusion of a "rate mitigation adjustment" in  
4 the Company's AURORA<sub>xmp</sub> model, reducing power  
5 supply expenses and therefore reducing the overall  
6 rate impact to customers.

7

8 Mr. William Johnson, Wholesale Marketing Manager, will  
9 identify and explain the proposed normalizing and pro forma  
10 adjustments to the 2007 test period power supply revenues  
11 and expenses. He will also explain the new base level of  
12 power supply costs for Power Cost Adjustment (PCA)  
13 calculation purposes using the pro forma costs proposed by  
14 the Company in this filing. Mr. Johnson describes:

- 15 • The adjustment of revenues and expenses based on  
16 normal stream flow and weather conditions, and  
17 expected wholesale market power prices.
- 18 • Adjustments made to reflect known and measurable  
19 changes in power contracts, thermal generation  
20 fuel expense, and transmission expense, between  
21 the 2007 test period, and the pro forma period of  
22 2009.
- 23 • The net effect of the adjustments to the 2007-test  
24 period power supply expense is an increase of  
25 \$971,000 on a system basis.
- 26 • The significant increase in power supply expense  
27 over the expense currently in base rates is based  
28 on numerous factors, including higher retail  
29 loads, reduced hydro generation, increased fuel  
30 costs, increased Mid-Columbia purchases costs, and  
31 increased transmission expense.

32

33 Mr. Bruce Howard, Director of Environmental Affairs,  
34 will provide an overview of the Spokane River relicensing,  
35 including an overview of the Spokane River projects, and the  
36 main areas of contention in the process. Finally, Mr.

1 Howard will discuss the costs that have been included in  
2 this case.

3

4 Ms. Toni Pessemier, Advisor to the Office of the  
5 President, will provide testimony regarding other hydro  
6 relicensing and compliance issues.

7

8 Mr. Don Kopczynski, Vice President of Transmission and  
9 Distribution Operations, will describe Avista's electric and  
10 natural gas energy delivery facilities and operations, and  
11 recent efforts to increase efficiency and improve customer  
12 service. Mr. Kopczynski describes:

- 13 • Avista's customer service programs such as energy  
14 efficiency, Project Share, CARES program, Senior  
15 Outreach Program, and payment plans. Some of  
16 these programs will serve to mitigate the impact  
17 on customers of the proposed rate increase.
- 18 • The Company's multi-faceted effort to increase  
19 customer service automation, including replacement  
20 and upgrade of the new Interactive Voice Response  
21 (IVR) system, Mobile Dispatch, Outage Management  
22 System and Web Redesign.
- 23 • The decision by the Company to outsource our bill  
24 printing and mailing services. This decision was  
25 based on Company needs for disaster recover, added  
26 scalability and flexibility, and cost savings.

27  
28 Mr. Scott Kinney, Chief Engineer, System Operations,  
29 will discuss Avista's nearly completed five-year  
30 transmission upgrade project, the additional electric  
31 transmission and distribution investments included in this  
32 case, and presents the Company's pro forma period

1 transmission revenues and expenses. In addition, he  
2 describes the Company's Asset Management Program. Mr.  
3 Kinney explains:

- 4 • Avista is expecting to invest over \$12.1 million  
5 (system) in electric transmission projects with  
6 completion dates in 2008.
- 7 • Several revisions have been made to transmission  
8 expenses for the 2009 pro forma period.
- 9 • Changes in replacement and maintenance costs  
10 associated with the Company's asset management.
- 11 • The near completion of the five-year transmission  
12 upgrade projects at a total cost of \$136.4  
13 million.  
14

15 Mr. Dave DeFelice, Senior Business Analyst, will  
16 describe the pro forma adjustment for non-revenue capital  
17 expenditures. Mr. DeFelice explains:

- 18 • The rising cost of essential materials specific to  
19 the utility industry is causing significant  
20 increases in capital project funding requirements.
- 21 • These costs must be pro formed into historical  
22 test- year computations in order to allow  
23 necessary recovery of our costs to serve  
24 customers.  
25

26 Mr. Greg Paulson, Manager of Customer Service,  
27 Analytics and Technology, will discuss the implementation of  
28 Advanced Meter Reading for Avista's customers in the State  
29 of Idaho, and our request for recovery of capital  
30 expenditures related to its deployment. Mr. Paulson  
31 explains:

- 32 • The history of the AMR project in Idaho, including  
33 an overview of the system, the technologies  
34 deployed in the Company's electric and natural gas

- 1 meters, and the types of technologies used in  
2 areas with high and low meter densities.
- 3 • A discussion around AMR and AMI, Advanced Metering  
4 Infrastructure, which is a newer technology that  
5 could provide further functionality for utilities,  
6 but which is still in the very early stages of  
7 development.
  - 8 • An overview of the benefits the Company has  
9 realized from the deployment of AMR, including  
10 safety of our customers and employees,  
11 elimination of the need for estimated reads,  
12 reduction in the volume of phone calls associated  
13 with estimated reads, and more accurate customer  
14 billing.
  - 15 • The Company will have invested approximately \$28.8  
16 million from 2005 through 2008 on this project in  
17 Idaho.  
18

19 Ms. Elizabeth Andrews, Manager of Revenue Requirements,  
20 will discuss the Company's overall revenue requirement  
21 proposals. In addition, her testimony generally provides  
22 accounting and financial data in support of the Company's  
23 need for the proposed increase in rates. She sponsors:

- 24 • Electric and natural gas revenue requirement  
25 calculations.
- 26 • Electric and natural gas results of operations.
- 27 • Pro forma operating results including expense and  
28 rate base adjustments.
- 29 • System and jurisdictional allocations.  
30

31 Ms. Tara Knox, Senior Regulatory Analyst, sponsors the  
32 cost of service studies for electric and natural gas  
33 service, the revenue normalization adjustments to results of  
34 operations, and the proposed production property adjustment.  
35 Ms. Knox studies indicate:

- 1                   • Electric residential service, extra large general  
2                   service and street and area lighting service  
3                   schedules are earning less than the overall rate  
4                   of return under present rates, while general  
5                   service, large general service and pumping  
6                   service schedules are earning more than the  
7                   overall rate of return under present rates.  
8                   However, all customer groups are currently  
9                   providing a rate of return lower than the rate of  
10                   return requested in this case.
- 11                   • Natural Gas high load factor large firm service  
12                   and interruptible schedules are earning  
13                   considerably less than the overall rate of return  
14                   at present rates, the transportation service  
15                   schedule is earning substantially more than the  
16                   overall rate of return, while small firm  
17                   schedules are also above unity but below the  
18                   requested return and residential service is  
19                   slightly below unity.  
20

21                   Mr. Brian Hirschhorn, Manager of Pricing, discusses the  
22                   spread of the proposed annual revenue changes among the  
23                   Company's general service schedules. He explains, among  
24                   other things, that:

- 25                   • The proposed electric annual revenue increase is  
26                   \$32.3 million, or 15.8% overall.
- 27                   • The monthly bill for a residential customer  
28                   using an average of 977 kwhs per month would  
29                   increase from \$67.38 to \$78.08 per month, an  
30                   increase of \$10.70 or 15.9%. This includes  
31                   the proposed increase in the monthly basic or  
32                   customer charge from \$4.00 to \$4.60.
- 33                   • The proposed natural gas annual revenue increase  
34                   is \$4.7 million, or 5.8%.
- 35                   • The monthly bill for a residential customer  
36                   using 65 therms per month would increase from  
37                   \$75.14 to \$80.05 per month, an increase of  
38                   \$4.91 or 6.5%. This includes the proposed  
39                   increase in the monthly basic or customer  
40                   charge from \$3.28 to \$4.00.  
41

1           Mr. Bruce Folsom, Senior Manager of Demand Side  
2 Management, provides an overview of the Company's DSM  
3 programs and documents Avista's expenditures for electric  
4 and natural gas energy efficiency programs. Mr. Folsom  
5 describes:

- 6           • The Company exceeded its 2007 electric efficiency  
7 targets by 13% and 2007 natural gas efficiency  
8 target by 41%.
- 9           • Avista's expenditures for electric and natural gas  
10 energy efficiency programs from November 1, 2003  
11 through December 31, 2007 have been prudently  
12 incurred.

13  
14           **Q. Does this conclude your pre-filed direct**  
15 **testimony?**

16           A. Yes.

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IDAHO PUBLIC UTILITIES COMMISSION

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**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

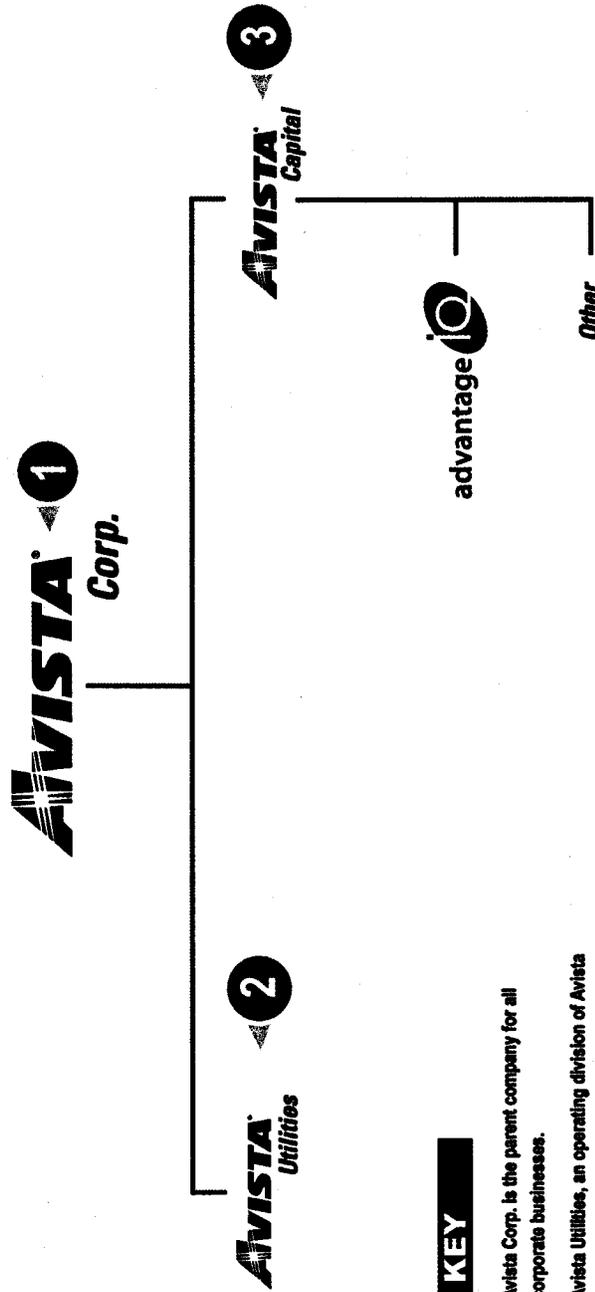
IN THE MATTER OF THE APPLICATION	)	CASE NO. AVU-E-08-01
OF AVISTA CORPORATION FOR THE	)	CASE NO. AVU-G-08-01
AUTHORITY TO INCREASE ITS RATES	)	
AND CHARGES FOR ELECTRIC AND	)	
NATURAL GAS SERVICE TO ELECTRIC	)	EXHIBIT NO. 1
AND NATURAL GAS CUSTOMERS IN THE	)	
STATE OF IDAHO	)	SCOTT L. MORRIS
	)	

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

# Avista Corporation Overview

## Avista Corporate Business Organizational Structure



### KEY

- ① > Avista Corp. is the parent company for all corporate businesses.
- ② > Avista Utilities, an operating division of Avista Corp., includes the regulated businesses, serving customers in Washington, Idaho and Oregon.
- ③ > Avista Capital is the parent company of all non-regulated subsidiaries. Avista Capital is a wholly owned subsidiary of Avista Corp.



**Customer Usage  
State of Idaho - Electric & Gas  
As of December 31, 2007**

<b>Electric</b>			<b>kwh</b>	
	<b>Schedule</b>	<b>No. of Customers</b>	<b>(000s)</b>	<b>% of Total kwh</b>
	Residential Sch. 1	98,532	1,146,827	33.3%
	General Sch. 11&12	18,882	324,367	9.4%
	Lge. General Sch. 21&22	1,437	684,110	19.9%
	Ex. Lge. General Sch. 25	14	1,213,412	35.3%
	Pumping Sch. 31&32	1,276	59,048	1.7%
	Street & Area Lights	125	13,583	0.4%
		<u>120,266</u>	<u>3,441,347</u>	<u>100%</u>

<b>Natural Gas</b>			<b>Therms</b>	
	<b>Schedule</b>	<b>No. of Customers</b>	<b>(000s)</b>	<b>% of Total Therms</b>
	General Service 101	70,952	54,015	46%
	Lg. General Service 111/112	802	15,415	13%
	Ex. Lg. Gen. Service 121/122	10	1,977	2%
	Interruptible Service 131/132	1	421	0%
	Transportation Service & Other	8	45,749	39%
		<u>71,773</u>	<u>117,577</u>	<u>100.00%</u>

## There is a reason your Avista bill shocks you

By Elaine Williams

The Lewiston Tribune

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My Avista bill for December was so high I wondered if I had accidentally forgotten to pay the utility company in November.

It cost \$200 for electricity and gas in an 1,800-square-foot house. I reacted this way even though I wrote three stories that ran two days before Christmas explaining why electricity and gas rates in north central Idaho and southeastern Washington had increased and were unlikely to fall significantly anytime soon.

In case you missed them, the summary of those articles goes like this: The average monthly electricity bill for an Idaho Avista residential customer has climbed from \$47.07 in 2000 to \$70.41 in 2007. The monthly gas bill for that customer has increased from \$43.60 to \$75.14 in the same time period.

Avista's customers in Washington have seen similar changes with the average household paying \$64.37 per month in 2007 for electricity compared to \$44.82 in 2000 and \$83.67 per month for gas compared to \$46.64.

Here's why. Avista is expanding its capacity to deliver gas and electricity to meet the needs of its customer base, which has grown by 40,000 since 2002.

Improvements are being made to existing Avista operations, such as boosting hydro generation from 554 to 582 megawatts at Noxon Rapids along the Clark Fork River in Montana. One megawatt is enough to power 650 homes.

Some options are off the table as Avista tries to keep pace with growth. State and federal environmental regulations along with public opinion make it unlikely that new dams will be constructed for hydropower. Emission standards in Washington essentially ban coal for electrical generation.

That leaves natural gas as one of the few viable choices for new electrical generation because it is relatively affordable and environmentally friendly. The biggest single share of Avista's new generation will come from the natural gas-fired plant near Rathdrum. Avista will have first rights to all of the electricity from the plant starting in 2010.

But natural gas prices have been rising too as more utilities turn to it for electrical generation. The natural gas pipelines from Canada that Avista uses once ended in the Northwest. Now some lines have been extended to the Midwest, putting additional pressure on prices.

At no time do consumers feel these conditions more keenly than in December and January. It's in those months that the weather is typically the coldest and building heat is normally the largest share of an Avista customer's bill.

Plus other factors are frequently at work in December. Families use more gas and electricity as they celebrate the holidays, decorating with lights, cooking more as they host guests and likely having the thermostat turned higher more hours in the day if they take vacation time.

The higher rates haven't turned Avista into a wealthy utility, said James Bellessa Jr., vice president of research with D.A. Davidson, an investment firm based in Great Falls, Mont.

The Washington State Utilities and Transportation Commission allows Avista to have a higher profit margin than it did in 2007, Bellessa said.

But that's difficult for utilities to achieve when they're investing in infrastructure like Avista is because of Washington's rules, Bellessa said. "Avista has some of the lowest utility rates in the nation so you don't have too much to squawk about."

Avista's customers might benefit from the utility charging more, Bellessa said. Healthy, financially strong utilities pay less to borrow money for investments in infrastructure - one of their biggest costs - and can pass those savings onto their customers.

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