

Avista Corp.
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IDAHO PUBLIC
UTILITIES COMMISSION

March 22, 2010

Jean D. Jewell
Commission Secretary
Idaho Public Utilities Commission
472 W. Washington St.
Boise, ID 83702

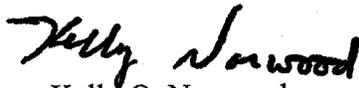
RE: Tariff I.P.U.C. No. 28 (Electric) and Tariff I.P.U.C. No. 27 (Natural Gas)
Docket Nos. AVU-E-10-01 and AVU-G-10-01

Enclosed for filing with the Commission are an original and nine copies of an Application by Avista Corporation, dba Avista Utilities (Avista), dated March 22, 2010 for approval of revised electric and natural gas rates. This filing reflects a general rate increase for both electric and natural gas service in the State of Idaho, to be effective April 23, 2010.

Avista has also included for filing nine copies of its prepared direct testimony, and exhibits in support of its revised rates, as well as three copies of workpapers showing how test data were adjusted. Please note that the workpapers of Clint G. Kalich are being provided in electronic format only due to the electronic and voluminous nature of these files. Computer-readable copies of the testimony, exhibits, and workpapers, required under Rule 231.05, are included on the attached compact disc.

Attached to the Application is the form of Customer Notice and form of Press Release to be issued by the Company. Additionally, Avista has included the Attorney's Certificate and Claim of Confidentiality Relating to Portions of Avista's Exhibits and Workpapers.

Sincerely,


Kelly O. Norwood
Vice President

Enclosures

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CERTIFICATE OF SERVICE

IDAHO PUBLIC
UTILITIES COMMISSION

I HEREBY CERTIFY that I have this 22rd day of March, 2010, served the foregoing application, and Avista's Direct Testimony and Exhibits in Docket No. AVU-E-10-01 and AVU-G-10-01 upon the following parties, by mailing a copy thereof, property addressed with postage prepaid to:

Jean D Jewell, Secretary
Idaho Public Utilities Commission
Statehouse
Boise, ID 83720-5983

Brad M. Purdy
Attorney at Law
2019 N 17th Street
Boise, ID 83720

Scott Woodbury
Deputy Attorney
Idaho Public Utilities Commission
472 W. Washington
Boise, ID 83702-0659

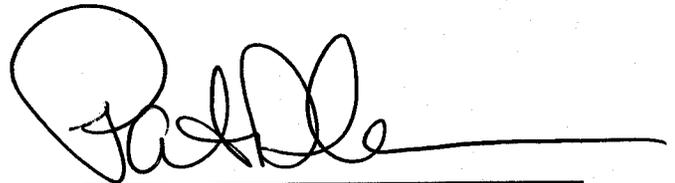
Peter J. Richardson
Richardson & O'Leary PLLC
515 N. 27th Street
Boise, ID 83702

Howard Ray
Clearwater Paper
803 Mill Road
P.O. Box 1126
Lewiston, ID 83501-1126

Dean J. Miller
McDevitt & Miller, LLP
420 W. Bannock St.
Boise, ID 83701-2564

Scott Atkison
Idaho Forest Products
171 Highway 95 N.
Grangeville, ID 83530

Larry Crowley
Energy Strategies Institute
5549 South Cliffs Edge Avenue
Boise, ID 83716



Patrick Ehrbar
Manager, Rates & Tariffs

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IDAHO PUBLIC
UTILITIES COMMISSION

DAVID J. MEYER
VICE PRESIDENT AND CHIEF COUNSEL FOR
REGULATORY & GOVERNMENTAL AFFAIRS
AVISTA CORPORATION
P.O. BOX 3727
1411 EAST MISSION AVENUE
SPOKANE, WASHINGTON 99220-3727
TELEPHONE: (509) 495-4316
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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	CASE NO. AVU-E-10-01
OF AVISTA CORPORATION FOR THE)	CASE NO. AVU-G-10-01
AUTHORITY TO INCREASE ITS RATES)	
AND CHARGES FOR ELECTRIC AND)	
NATURAL GAS SERVICE TO ELECTRIC AND)	
NATURAL GAS CUSTOMERS IN THE STATE)	
OF IDAHO)	

APPLICATION OF AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

1 Kelly Norwood
2 Vice President - State and Federal Regulation
3 Avista Utilities
4 P.O. Box 3727
5 1411 E. Mission Ave
6 Spokane, WA 99220-3727
7 Phone: (509) 495-4267
8 Fax: (509) 495-2581
9

10 **II.**

11 Avista is a public utility primarily engaged in the
12 generation, transmission and distribution of electric power
13 and the distribution of natural gas in certain portions of
14 eastern and central Washington, northern Idaho, as well as
15 distribution of natural gas in northeast and southwest Oregon.
16 The Company is subject to the jurisdiction of this Commission,
17 the Washington Utilities and Transportation Commission, the
18 Oregon Public Utility Commission, the Montana Public Service
19 Commission and the Federal Energy Regulatory Commission.

20 **III.**

21 Applicant's existing base rates and charges for electric
22 service were approved as a result of the Commission's Order No.
23 30856, dated July 17, 2009, in Case No. AVU-E-09-01. The
24 existing rates and charges for electric service on file with
25 the Commission (designated as Applicant's Tariff No. 28) are
26 incorporated herein as though fully attached hereto.

27 **IV.**

28 Applicant's existing base rates and charges for natural
29 gas service were approved as a result of the Commission's Order
30 No. 30856, dated July 17, 2009, in Case No. AVU-G-09-01. The
31 existing rates and charges for natural gas service on file with

1 the Commission (designated as Applicant's Tariff No. 27) are
2 incorporated herein as though fully attached hereto.

3 **V.**

4 The electric and natural gas rates and charges which
5 Applicant desires to have the Commission approve are filed
6 herewith as Exhibit A. Also included in Exhibit A are copies
7 of the tariff schedules showing the proposed changes by
8 striking over the existing rates and underlining the proposed
9 rates. Company witness Mr. Ehrbar fully describes in his
10 testimony and exhibits the proposed changes.

11 **VI.**

12 The circumstances and conditions relied upon, and
13 justification for, the approval of the proposed increase in
14 rates for electric and natural gas service are as follows:

15 Applicant's present electric and natural gas rates will
16 not produce sufficient revenue to provide operating income
17 required to allow the Applicant the opportunity to earn the
18 8.55% rate of return being requested and supported in this
19 Application.

20 The Applicant's last electric and natural gas general rate
21 case change (Case Nos. AVU-E-09-01 and AVU-G-09-01) in Idaho
22 was effective in August 2009. The proposed revenue increases
23 are driven primarily by increased power supply costs, increased
24 costs to meet additional compliance requirements, the need to
25 replace aging infrastructure, and changes in other various
26 costs of providing electric and natural gas services to our
27 customers.

1 Unless the increased rates as requested in this filing are
2 approved, Applicant's rates will not be fair, just and
3 reasonable and it will not have the opportunity to realize a
4 fair rate of return on its investment.

5 Applicant's evidence in support of its need for increased
6 electric and natural gas rates is based on a 12-month ended
7 December 31, 2009 test year. Applicant's rate base evidence
8 is presented on an average basis. Documentation showing how
9 the test year data was adjusted is provided in the testimony
10 and exhibits of Company witness Andrews.

11 Applicant provides utility service in states other than
12 Idaho. A jurisdictional separation of all investments,
13 revenues and expenses allocated or assigned in whole or in part
14 to the Idaho utility business regulated by this Commission is
15 described in the testimony and exhibits of Company witness
16 Andrews.

17 **VII.**

18 Applicant's evidence will show that an overall rate of
19 return of 8.55% is fair, just and reasonable. The Company's
20 exhibits and testimony support an increase in retail electric
21 and natural gas revenue of \$32.1 million and \$2.6 million,
22 respectively. Simultaneous with the filing of this
23 Application, Applicant has filed its prepared direct
24 testimony, and exhibits in support of its revised rates, as well
25 as workpapers showing how test year data were adjusted.

26 **VIII.**

1 A complete justification of the proposed increases in
2 electric and natural gas rates is provided in the testimony and
3 exhibits of Company witnesses. These witnesses and a brief
4 summary of their testimony are as follows.

5
6 Mr. Scott L. Morris, Chairman, President, and Chief
7 Executive Officer of Avista, presents the Company's policy
8 testimony and provides an overview of Avista Corporation. He
9 also summarizes the Company's rate requests in this filing, the
10 primary factors driving the Company's need for rate relief, and
11 provides some background on why utility costs are continuing
12 to increase. In addition to major increases in power supply
13 costs, the Company continues to experience increasing costs
14 from additional compliance requirements, and the need to
15 replace aging infrastructure. He explains that it is simply
16 not possible to cut other costs enough to offset these cost
17 increases.

18 In his testimony, however, Mr. Morris does provide an
19 overview of some of the measures the Company has taken to cut
20 costs, as well as initiatives to increase operating
21 efficiencies in an effort to mitigate a portion of the cost
22 increases. He explains the Company's customer support programs
23 in place to assist our customers, as well as our communications
24 initiatives to help customers better understand the changes in
25 costs that are causing our rates to go up.

26

1 Mr. Mark Thies, Senior Vice President and Chief Financial
2 Officer describes, among other things, the overall financial
3 condition of the Company, its current credit ratings, the
4 Company's plan for improving its financial health, its near term
5 capital requirements, the proposed capital structure, and the
6 overall rate of return proposed by the Company. Mr. Thies
7 explains that:

- 8 • Avista's plans call for significant capital
9 expenditure requirements for the utility over the
10 next two years to assure reliability in serving our
11 customers and meeting customer growth. Capital
12 expenditures of approximately \$420 million
13 (excluding Stimulus Projects) are planned for
14 2010-2011 for customer growth, investment in
15 generation upgrades, transmission and distribution
16 facilities for the electric utility business as well
17 as necessary maintenance and replacements of our
18 natural gas utility systems. Capital expenditures
19 of approximately \$1.2 billion are planned for the
20 five year period ending December 31, 2014. Avista
21 needs adequate cash flow from operations to fund
22 these requirements, together with access to capital
23 from external sources under reasonable terms.
24
- 25 • Avista's corporate credit rating from Standard &
26 Poor's (S&P) is currently BBB- and Baa3 from Moody's
27 Investors Service (Moody's). Avista Utilities must
28 operate at a level that will support a strong
29 investment grade corporate credit rating, meaning
30 "BBB" or "BBB+", in order to access capital markets
31 at reasonable rates, which will decrease long-term
32 borrowing costs to customers. Avista has been placed
33 on "positive" outlook by both S&P and Moody's, which
34 may result in an upgrade as early as August 2010. The
35 regulatory environment will be taken into
36 consideration by the rating agencies when reviewing
37 Avista for a possible upgrade. Maintaining solid
38 credit metrics and credit ratings will also help
39 support a stock price necessary to issue equity to
40 fund capital requirements.
41
- 42 • The Company has proposed an overall rate of return
43 of 8.55%, including a 50% equity ratio and a 10.9%
44 return on equity. Our cost of debt is 6.2%. We
45 believe the 10.9% proposed ROE provides a reasonable

1 balance of the competing objectives of continuing to
2 improve our financial health, and the impacts that
3 increased rates have on our customers.
4

5 Dr. William E. Avera, as a President of Financial Concepts
6 and Applications (FINCAP), Inc., has been retained to present
7 testimony with respect to the Company's cost of common equity.
8 He concludes that:

- 9 • In order to reflect the risks and prospects associated
10 with Avista's jurisdictional utility operations, his
11 analyses focused on a proxy group of seventeen other
12 utilities with comparable investment risks.
13 Consistent with the fact that utilities must compete
14 for capital with firms outside their own industry, he
15 also references a proxy group of comparable risk
16 companies in the non-utility sector of the economy;
- 17 • Based on his evaluation of the strength of the various
18 methods, Dr. Avera concluded that the cost of equity
19 for the proxy groups of utilities and non-utility
20 companies is in the **10.9 percent to 12.5 percent** range,
21 or **11.1 percent to 12.7 percent** after incorporating an
22 adjustment to account for the impact of common equity
23 flotation costs;
- 24 • Because Avista's requested ROE of 10.9 percent falls at
25 the very bottom of his "bare bones" cost of equity range,
26 it represents a conservative estimate of investors'
27 required rate of return.
28

29 Mr. Richard Storro, Vice President of Energy Resources,
30 provides an overview of Avista's resource planning and power
31 supply operations. This includes summaries of the Company's
32 generation resources, the current and future load and resource
33 position, future resource plans, and an update on the Company's
34 plans regarding the acquisition of new renewable resources. He
35 also addresses hydroelectric and thermal project upgrades, and
36 an update on recent developments regarding hydro licensing.

1 Mr. Clint Kalich, Manager of Resource Planning & Power
2 Supply Analyses, describes the Company's AURORA_{XMP} model
3 (Dispatch Model) inputs, assumptions, and results related to the
4 economic dispatch of Avista's resources to serve load
5 requirements, and market forecast of electricity prices. He
6 explains:

- 7 • The key assumptions driving the Dispatch Model's
8 market forecast of electricity prices. This
9 discussion includes the variables of natural gas,
10 Western Interconnect loads and resources, and
11 hydroelectric conditions.
- 12 • How the Model dispatches Avista's resources and
13 contracts in a manner that maximizes benefits to
14 customers.
- 15 • The output results from the Model, including thermal
16 generation and short-term wholesale sales and
17 purchases, were provided to Mr. Johnson to
18 incorporate into the power supply pro forma
19 adjustments.
20

21 Mr. William Johnson, Wholesale Marketing Manager,
22 identifies and explains the proposed normalizing and pro forma
23 adjustments to the test period power supply revenues and
24 expenses. He also explains the new base level of power supply
25 costs for Power Cost Adjustment (PCA) calculation purposes,
26 using the pro forma costs proposed by the Company in this filing.
27 Mr. Johnson describes:

- 28 • The proposed normalizing and pro forma adjustments to
29 the January 2009 through December 2009 test period
30 power supply revenues and expenses.
- 31 • The proposed level of authorized expense and retail
32 revenue credit for the Power Cost Adjustment (PCA)
33 calculation purposes, using the pro forma costs
34 proposed by the Company in this filing.
35

36 Mr. Don Kopczynski, Vice President of Transmission and
37 Distribution Operations, describes Avista's electric and

1 natural gas energy delivery facilities and operations, and
2 recent efforts to increase efficiency and improve customer
3 service. Mr. Kopczynski describes:

- 4 • Avista's customer service programs such as the energy
5 efficiency, Project Share, CARES program, Senior
6 Outreach Program, and payment plans. Some of these
7 programs will serve to mitigate the impact on
8 customers of the proposed rate increase.
- 9 • The Company's multifaceted effort to increase
10 customer service automation, including replacement
11 and upgrade of the new Enterprise Voice Portal (EVP)
12 system.

13
14 Mr. Scott Kinney, Director, Transmission Operations,
15 discusses the electric transmission and distribution capital
16 investments included in this case, and presents the Company's
17 pro forma period transmission revenues and expenses.

18 Mr. Dave DeFelice, Senior Business Analyst, describes the
19 Company's proposed pro forma adjustments for capital
20 investments in utility plant for the 2009 test period. Mr.
21 DeFelice explains:

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

28
29 Mr. Jim Kensok, Vice-President, Chief Information Officer,
30 describes Avista's information technology cost recovery needs
31 and incremental costs. These incremental costs include
32 increases in expenses for supporting applications utilized by
33 the Company, additional required security and compliance
34 requirements, and additional dollars required for hosting fees,
35 application fees, software maintenance and license fees.

1 Mr. Kevin Christie, Director of Gas Supply, describes the
2 additional Jackson Prairie (JP) natural gas storage that the
3 utility will receive to serve customers beginning May 1, 2011.
4 He also describes the allocation of this additional storage and
5 the associated costs to the three jurisdictions that the Company
6 serves.

7 Ms. Elizabeth Andrews, Manager of Revenue Requirements,
8 discusses the Company's overall revenue requirement proposals.
9 In addition, her testimony provides accounting and financial
10 data in support of the Company's need for the proposed increase
11 in rates. She sponsors:

- 12 • Electric and natural gas revenue requirement
13 calculations.
- 14 • Electric and natural gas results of operations.
- 15 • Pro forma operating results, including expense and
16 rate base adjustments.
- 17 • System and jurisdictional allocations.
- 18

19 Ms. Tara Knox, Senior Regulatory Analyst, sponsors the
20 cost-of-service studies for electric and natural gas service,
21 the revenue normalization adjustments to results of operations,
22 the results from the Company's demand study, and the proposed
23 retail revenue credit rate. Ms. Knox's studies demonstrate:

- 24 • Electric residential service, extra large general
25 service, and pumping service schedules are earning
26 less than the overall rate of return under present
27 rates, while general service, large general service
28 and the street and area lighting service schedules
29 are earning more than the overall rate of return
30 under present rates.
- 31 • Natural Gas residential service schedule is earning
32 less than the overall rate of return at present
33 rates, and all other service schedules are earning
34 more than the overall rate of return.

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Mr. Patrick Ehrbar, Manager of Rates and Tariffs, discusses the spread of the proposed annual revenue changes among the Company's general service schedules. He explains, among other things, that:

- The proposed increase in electric base rates is 14.0%, which consists of an increase in electric base retail rates of \$32.1 million.
- The monthly bill for a residential customer using an average of 964 kWhs per month would increase from \$77.95 to \$89.35 per month, an increase of \$11.40 or 14.6%. This includes the proposed increase in the monthly basic or customer charge from \$4.00 to \$6.75.
- The proposed natural gas annual revenue increase in base rates is \$2.6 million, or 3.6%.
- The monthly bill for a residential customer using 63 therms per month would increase from \$56.03 to \$58.80 per month, an increase of \$2.77 or 4.9%. This includes the proposed increase in the monthly basic or customer charge from \$4.00 to \$6.75.

Mr. Bruce Folsom, Senior Manager of Demand Side Management, provides an overview of the Company's DSM programs and documents Avista's expenditures for electric and natural gas energy efficiency programs. Mr. Folsom explains that:

- The Company continues to exceed the targets established as part of the IRP process. Electric efficiency savings for 2009 were 141% of the annual target and natural gas therms saved for 2009 were 128% of the annual target.
- Avista's expenditures for electric and natural gas energy efficiency programs from January 1, 2008 through December 31, 2009 have been prudently incurred.

IX.

Avista has provided under separate cover an Attorney's Certificate And Claim Of Confidentiality Relating To Portions

1 Of Avista's Exhibits and Workpapers pursuant to Idaho Code
2 Section 9-340D and IDAPA 31.01.01.067 and 31.01.01.233.

3 **X.**

4 Notice to the public of the proposed rates and charges,
5 pursuant to IDAPA 31.21.02.102, will be given simultaneously
6 with the filing of the Application by distributing a customer
7 notice, as a bill stuffer, to each customer over a billing
8 cycle, and by a news release, both of which are attached as
9 Exhibit B. Notice of proposed rates will also be given to all
10 Idaho customers by individual bill insert as required by rule.

11 **XI.**

12 Portions of the Company's Application and accompanying
13 testimony and exhibits are based on computer models.
14 Documentation and explanation on some of the models have
15 already been provided to Commission Staff. Additional
16 documentation and explanation are provided with testimony,
17 exhibits and workpapers in this filing. Further information
18 can be provided upon request.

19 **XII.**

20 The Applicant stands ready for immediate consideration of
21 this Application.

22 WHEREFORE Applicant requests the Commission issue its
23 Order finding the proposed rates and charges to be fair, just,
24 reasonable and nondiscriminatory, and effective for electric
25 and natural gas service rendered on and after April 23, 2010.

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DATED at Spokane, Washington, this 22nd day of March, 2010

AVISTA CORPORATION

By



A handwritten signature in black ink, appearing to read 'DJM', is written over a solid horizontal line.

David J. Meyer
Vice President and Chief Counsel for
Regulatory & Governmental Affairs
Avista Corporation

1 STATE OF WASHINGTON)

2 : SS

3 County of Spokane)

4

5 David J. Meyer, being duly sworn, on oath deposes and
6 says:

7 That he is the Vice President and Chief Counsel of Regulatory
8 and Governmental Affairs of Avista Corporation;

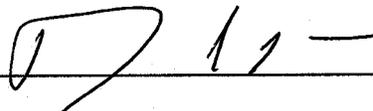
9 That he has read the foregoing Application, knows the contents
10 thereof, and believes the same to be true.

11

12

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14



15

David J. Meyer

16

17

18 Subscribed and sworn to before me this 22nd day of March, 2010.

19

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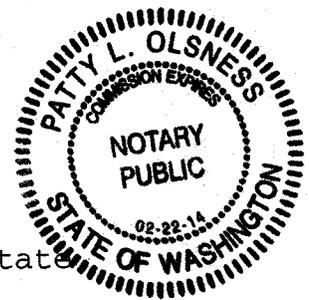


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Notary Public in and for the State

24

Washington, residing in Spokane



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IDAHO PUBLIC UTILITIES COMMISSION

DAVID J. MEYER
VICE PRESIDENT AND CHIEF COUNSEL FOR
REGULATORY & GOVERNMENTAL AFFAIRS
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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)
OF IDAHO)
_____)

CASE NO. AVU-E-10-01

CASE NO. AVU-G-10-01

ATTORNEY'S CERTIFICATE
CLAIM OF CONFIDENTIALITY
RELATING TO PORTIONS
OF AVISTA'S WORKPAPERS

FOR AVISTA CORPORATION

1 I, David J. Meyer, represent Avista Corporation. I am
2 Vice President and Chief Counsel for Regulatory and
3 Governmental Affairs for Avista Corporation (Avista or
4 Company) and I am appearing on its behalf in this proceeding.

5 I make this certification and claim of confidentiality
6 pursuant to IDAPA 31.01.01 because Avista, through its
7 supporting workpapers, is disclosing certain information
8 that is CONFIDENTIAL and constitutes TRADE SECRETS as defined
9 by Idaho Code Section 9-340 and 48-801 and protected under
10 IDAPA 31.01.01.067 and 31.01.01.233.

11 The printed information Avista provides will, as
12 required under IDAPA Rule 67, be marked as CONFIDENTIAL, will
13 be reproduced on any colored paper other than white, and will
14 be provided under separate cover. The electronic information
15 Avista provides will be reproduced separately on a compact
16 disk (CD) and will also be marked as CONFIDENTIAL.

17 The confidential information that Avista is disclosing
18 can be classified into two basic categories: 1) information
19 pertaining to contract prices, terms and conditions, 2)
20 certain results providing detailed information on the
21 Company's load and resource positions by month, and 3) Risk
22 Management Policies which contain general policies,
23 guidelines, and position limits.

1 Avista herein asserts that the aforementioned
2 information is confidential in that: 1) the contract
3 information is prohibited, by the contract terms, from public
4 disclosure, and 2) making the load and resource information
5 public will give entities access to competitive information
6 on future operating plans and market purchase requirements
7 and Avista believes the information could be used to
8 disadvantage its customers, and 3) the Risk Management
9 Policies, if shared with competitors, could also be used to
10 disadvantage Avista's customers.

11 I am of the opinion that this information is
12 CONFIDENTIAL, as defined by Idaho Code Sections 9-340D and
13 48-801, should therefore be protected from public inspection,
14 examination and copying, and should be utilized only in
15 accordance with the terms of the PROTECTIVE AGREEMENT BETWEEN
16 AVISTA CORPORATION AND IDAHO PUBLIC UTILITIES COMMISSION
17 STAFF.

18 RESPECTFULLY SUBMITTED this 22nd day of March, 2010

19

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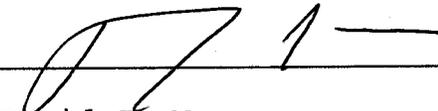
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David J. Meyer
Vice President and Chief Counsel for
Regulatory & Governmental Affairs
Avista Corporation