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IDAHO PUBLIC
UTILITIES COMMISSION

October 10, 2012

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-12-08 and AVU-G-12-07

Enclosed for filing with the Commission are an original and nine copies of an Application by Avista Corporation, dba Avista Utilities (Avista), dated October 10, 2012 for approval of revised electric and natural gas rates. Please note that the Company, in its application, has requested the Commission to suspend this filing for 30 days and 5 months, to ensure that rates will not be effective until after April 1, 2013. This ensures compliance with Commission Order No. 32371.

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 period data were adjusted. Please note that the workpapers of Clint G. Kalich and Robert J. Lafferty are being provided in electronic format only due to the 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.

Please direct any questions related to the transmittal of this filing to Patrick Ehrbar at 509-495-8620.

Sincerely,

A handwritten signature in black ink that reads "Kelly Norwood". The signature is written in a cursive style.

Kelly O. Norwood
Vice President

Enclosures

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this 10th day of October, 2012, served the foregoing application, and Avista's Direct Testimony and Exhibits in Docket No. AVU-E-12-08 and AVU-G-12-07, upon the following parties, by mailing a copy thereof, properly addressed with postage prepaid to:

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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	CASE NO. AVU-E-12-08
OF AVISTA CORPORATION FOR THE)	CASE NO. AVU-G-12-07
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) 777-9522
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 32371, dated September 30, 2011, in Case No. AVU-E-11-01. 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

1 No. 32371, dated September 30, 2011, in Case No. AVU-G-11-01.
2 The existing rates and charges for natural gas service on file
3 with the Commission (designated as Applicant's Tariff No. 27)
4 are incorporated herein as though fully attached hereto.

5 V.

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

13 VI.

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

17 Applicant's present electric and natural gas rates will
18 not produce sufficient revenue to provide operating income
19 required to allow the Applicant the opportunity to earn the
20 8.46% rate of return being requested and supported in this
21 Application.

22 The Applicant's last electric and natural gas general rate
23 case change (Case Nos. AVU-E-11-01 and AVU-G-11-01) in Idaho
24 was effective in October 2011. The proposed revenue increases
25 are driven primarily by an increase in Net Plant Investment

1 (including return on investment, depreciation and taxes, and
2 offset by the tax benefit of interest). The request is also
3 being driven by increases in distribution, operation and
4 maintenance (O&M), and administrative and general (A&G)
5 expenses, partially offset by a reduction in net power supply
6 and transmission expenditures.

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

11 Applicant's evidence in support of its need for increased
12 electric and natural gas rates is based on a 12-month ended June
13 30, 2012 test year. Applicant's rate base evidence is presented
14 on an average basis. Documentation showing how the test year
15 data was adjusted is provided in the testimony and exhibits of
16 Company witness Andrews.

17 Applicant provides utility service in states other than
18 Idaho. A jurisdictional separation of all investments,
19 revenues and expenses allocated or assigned in whole or in part
20 to the Idaho utility business regulated by this Commission is
21 described in the testimony and exhibits of Company witness
22 Andrews.

23 VII.

24 Applicant's evidence will show that an overall rate of
25 return of 8.46% is fair, just and reasonable. The Company's

1 exhibits and testimony support an increase in retail electric
2 and natural gas revenue of \$11.4 million and \$4.6 million,
3 respectively. Simultaneous with the filing of this
4 Application, Applicant has filed its prepared direct testimony
5 and exhibits in support of its revised rates, as well as
6 workpapers showing how test year data were adjusted.

7 VIII.

8 A complete justification of the proposed increases in
9 electric and natural gas rates is provided in the testimony and
10 exhibits of Company witnesses. These witnesses and a brief
11 summary of their testimony are as follows.

12 Mr. Scott L. Morris, Chairman, President, and Chief
13 Executive Officer of Avista, presents the Company's policy
14 testimony and provides an overview of Avista Corporation. He
15 also summarizes the Company's rate requests in this filing, the
16 primary factors driving the Company's need for rate relief, and
17 provides some background on why utility costs are continuing
18 to increase. He explains that much of the Company's need for
19 rate relief is driven primarily by the increased costs
20 associated with the need to expand and replace our aging utility
21 infrastructure, and our obligation to reliably serve
22 customers. He explains that it is simply not possible to cut
23 other costs enough to offset these cost increases.

24 In his testimony, however, Mr. Morris does provide an
25 overview of some of the measures the Company has taken to cut

1 costs, as well as initiatives to increase operating
2 efficiencies in an effort to mitigate a portion of the cost
3 increases. He explains the Company's customer support programs
4 that are in place to assist our customers, as well as our
5 communication initiatives to help customers better understand
6 the changes in costs that are causing our rates to go up.

7 Mr. Mark Thies, Senior Vice President and Chief Financial
8 Officer, will provide a financial overview of the Company and
9 will explain the overall rate of return proposed by the Company
10 in this filing for its electric and natural gas operations. The
11 proposed rate of return is derived from Avista's total cost of
12 long-term debt and common equity, weighted in proportion to the
13 proposed capital structure.

14 He will address the proposed capital structure, as well
15 as the proposed cost of total debt and equity in this filing.
16 In brief, he will provide information that shows:

- 17 • Avista's plans call for significant capital
18 expenditure requirements for the utility over the
19 next two years to assure reliability in serving our
20 customers and meeting customer growth. Capital
21 expenditures of approximately \$500 million are
22 planned for 2012-2013 for customer growth,
23 investment in generation upgrades and transmission
24 and distribution facilities, as well as necessary
25 maintenance and replacements of our natural gas
26 utility systems. Capital expenditures of
27 approximately \$1.2 billion are planned for the
28 five-year period ending December 31, 2016. Avista
29 needs adequate cash flow from operations to fund
30 these requirements, together with access to capital
31 from external sources under reasonable terms.
- 32
- 33 • Avista's corporate credit rating from Standard &
34 Poor's (S&P) is currently BBB and from Moody's

1 Investors Service (Moody's) it is Baa2. Avista must
2 operate at a level that will support a solid
3 investment grade corporate credit rating in order to
4 access capital markets at reasonable rates, which
5 will result in lower long-term borrowing costs to
6 customers. A supportive regulatory environment is an
7 important consideration by the rating agencies when
8 reviewing Avista. Maintaining solid credit metrics
9 and credit ratings will also help support a stock
10 price necessary to issue equity under reasonable
11 terms to fund capital requirements.
12

- 13 • The Company is proposing an overall rate of return
14 of 8.46%, including a 50.0% equity ratio and a 10.90%
15 return on equity. Our proforma cost of debt is
16 6.02%.

17
18 Dr. William E. Avera, as President of Financial Concepts
19 and Applications (FINCAP), Inc., has been retained to present
20 testimony with respect to the Company's cost of common equity.
21 He concludes that:

- 22 • In order to reflect the risks and prospects associated
23 with Avista's jurisdictional utility operations, his
24 analyses focused on a proxy group of twenty-six other
25 utilities with comparable investment risks.
26 Consistent with the fact that utilities must compete
27 for capital with firms outside their own industry, he
28 also references a proxy group of comparable risk
29 companies in the non-utility sector of the economy;
- 30 • Because investors' required return on equity is
31 unobservable and no single method should be viewed in
32 isolation, he applied the DCF, CAPM, and risk premium
33 methods, as well as the expected earnings approach, to
34 estimate a fair ROE for Avista;
- 35 • Based on the results of these analyses, and giving less
36 weight to extremes at the high and low ends of the range,
37 Dr. Avera concluded that the cost of equity for the
38 proxy group of utilities is in the 10.0 percent to 11.4
39 percent range, or 10.2 percent to 11.6 percent after
40 incorporating an adjustment to account for the impact
41 of common equity flotation costs; and,

1 • Avista is requesting a fair ROE of 10.9 percent, which
2 is equal to the midpoint of his recommended range.
3 Considering capital market expectations, the exposures
4 faced by Avista, and the economic requirements
5 necessary to maintain financial integrity and support
6 additional capital investment even under adverse
7 circumstances, it is Dr. Avera's opinion that 10.9
8 percent represents a fair and reasonable ROE for
9 Avista.

10

11 Mr. Robert Lafferty, Director of Power Supply, will
12 provide an overview of Avista's resource planning and power
13 supply operations. This includes summaries of the Company's
14 generation resources, the current and future load and resource
15 position, and future resource plans, including the power
16 purchase agreement with Palouse Wind, LLC. As part of an
17 overview of the Company's risk management policy, he will
18 provide an update on the Company's hedging practices. He will
19 address hydroelectric and thermal project upgrades, followed
20 by an update on recent developments regarding hydro licensing.

21 Mr. Clint Kalich, Manager of Resource Planning & Power
22 Supply Analyses, will describe the Company's use of the
23 AURORA_{XMP} dispatch model, or "Dispatch Model." He will explain
24 the key assumptions driving the Dispatch Model's market
25 forecast of electricity prices. The discussion includes the
26 variables of natural gas, Western Interconnect loads and
27 resources, and hydroelectric conditions. He will also describe
28 how the model dispatches its resources and contracts to
29 maximize customer benefit and tracks their values for use in

1 pro forma calculations. Finally, he will present the modeling
2 results provided to Company witness Mr. Johnson for his power
3 supply pro forma adjustment calculations.

4 Mr. William Johnson, Wholesale Marketing Manager, will 1)
5 identify and explain the proposed normalizing and pro forma
6 adjustments to the July 2011 through June 2012 test period power
7 supply revenues and expenses, and 2) describe the proposed
8 level of expense and load change adjustment rate for Power Cost
9 Adjustment (PCA) purposes, using the pro forma costs proposed
10 by the Company in this filing.

11 Mr. Steve Harper, Director of Gas Supply, will describe
12 Avista's natural gas procurement planning process for retail
13 distribution service, and provide an overview of the Company's
14 2012 Natural Gas Integrated Resource Plan development.

15 Mr. Don Kopczynski, Vice President of Energy Delivery,
16 will describe Avista's electric and natural gas energy delivery
17 facilities and operations, and recent efforts to increase
18 efficiency and improve customer service. He will describe
19 Avista's efforts to control costs, increase efficiency, and
20 improve customer service. He will also discuss the replacement
21 of the Company's legacy customer information system (CIS), as
22 well as summarize Avista's customer support programs in Idaho.
23 Finally, he will address the Company's plans to replace Aldyl
24 A piping in our natural gas distribution system.

1 Mr. Scott Kinney, Director, Transmission Operations,
2 describes Avista's pro forma period transmission revenues and
3 expenses. He will also discuss the Transmission and
4 Distribution expenditures that are part of the capital
5 additions, as well as projects associated with the Company's
6 Asset Management Program.

7 Ms. Elizabeth Andrews, Manager of Revenue Requirements,
8 will cover accounting and financial data in support of the
9 Company's need for the proposed increase in rates. She will
10 explain pro formed operating results, including expense and
11 rate base adjustments made to actual operating results and rate
12 base.

13 Mr. Dave DeFelice, Senior Business Analyst, will cover the
14 Company's proposed pro forma adjustments for capital
15 investments in utility plant for the 2013 rate period. In
16 addition, his testimony and exhibits will cover the Company's
17 proposed changes in depreciation rates pertaining to electric
18 and natural gas plant-in-service using the recently completed
19 depreciation study.

20 Ms. Tara Knox, Senior Regulatory Analyst, will cover the
21 Company's electric and natural gas cost of service studies
22 performed for this proceeding. Additionally, she is sponsoring
23 the electric and natural gas revenue normalization adjustments
24 to the test year results of operations and the proposed Load

1 Change Adjustment Rate (LCAR) to be used in the Power Cost
2 Adjustment (PCA).

3 Mr. Patrick Ehrbar, Manager of Rates and Tariffs,
4 discusses the spread of the proposed annual revenue changes
5 among the Company's general service schedules as well as the
6 proposed rate design within each schedule. He explains, among
7 other things, that:

- 8 • The proposed increase in electric base rates is 4.6%,
9 which consists of an increase in electric base
10 retail revenues of \$11.4 million.
11
- 12 • The monthly bill for a residential customer using an
13 average of 930 kWhs per month would increase from
14 \$78.69 to \$82.89 per month, an increase of \$4.20 or
15 5.3%.
16
- 17 • The proposed natural gas annual revenue increase in
18 base rates is \$4.6 million, or 7.2%.
19
- 20 • The monthly bill for a residential customer using 60
21 therms per month would increase from \$52.55 to
22 \$56.67 per month, an increase of \$4.12 or 7.8%.
23

24
25 In addition, he will provide further information related
26 to the Company's proposed Energy Efficiency Load Adjustment,
27 and provide an overview of the items required of the Company
28 in Order No. 32371, and the related Settlement Stipulation, in
29 Case Nos. AVU-E/G-11-01.

30 IX.

31 Avista has provided under separate cover an Attorney's
32 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 31.01.01.125, 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. The Applicant is also
25 requesting that the Commission suspend the Applicant's filing

1 for 30 days plus 5 months from the proposed effective date of
2 November 10, 2012. Doing so recognizes the fact that new rates
3 cannot go into effect prior to April 1, 2013 pursuant to Order
4 32371.

5 DATED at Spokane, Washington, this 10th day of October,
6 2012

7

8 AVISTA CORPORATION

9

10

11

By

A handwritten signature in black ink, appearing to read "D J Meyer", is written over a horizontal line.

12

David J. Meyer
13 Vice President and Chief Counsel for
14 Regulatory & Governmental Affairs
15 Avista Corporation
16

16

17

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

13

14



15

David J. Meyer

16

17

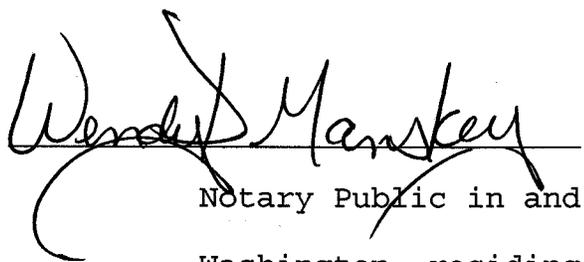
18

Subscribed and sworn to before me this 10th day of October, 2012.

19

20

21



22

23

Notary Public in and for the State of

24

Washington, residing in Spokane

