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IDAHO PUBLIC UTILITY COMMISSION

August 30, 2017

AVU-E-17-04 AVU-E-17-01 AVU-6-17-01 AVU-6-17-03

Idaho Public Utility Commission
P. O. Box 83720
Boise, Idaho 83720-0074

Dear Commissioners:

We are writing this letter to protest the current rate adjustment requests by Avista Utilities.

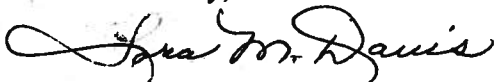
We are requesting you deny ALL current proposed rate adjustments by Avista.

Even though our average yearly usage has dropped significantly since 2005 our power bills continue to go up. We are on a limited income as are many of Avista's customers and cannot afford these continual increases. According to my records the current rate adjustment requests by Avista are the fifth such increase since October of 2015!

Several of the rate increases have been to "pay for upgrades to aging infrastructure". When we were in business we had to budget annually and set aside funds out of our profits for any upgrades or future capital expenditures as do most public or private businesses. Another issue you might want to look into is how much is the CEO being paid!

Recently we were informed Avista Utilities was being sold to a foreign company. It is ludicrous to allow any foreign company to have control of our power grid in the Pacific Northwest. This is dangerous and should not be allowed. As Idaho's Public Utility Commissioners, you are in a position to protect the Citizens of Idaho. Please do so.

Sincerely,



Lora M. Davis
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Michael A. Neher
6056 N. Colfax
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IDAHO PUBLIC UTILITIES COMMISSION

August 31, 2017

Diane Hanian, Commission Secretary
Idaho Public Utilities Commission
P.O. Box 83720
Boise, ID 83720-0074

Re: Avista Corporation Rate Cases AVU E 17 04, AVU E 17 01, AVU G 17 01, AVU G 17 03

Dear Ms. Hanian:

I would like to make the following statement regarding the above named open rate cases. As a consumer and customer of Avista, I deeply appreciate and depend upon Avista for natural gas and electricity to support the well being of my family. Our livelihood, health and safety greatly depend on the reliable services that Avista provides. The community's heat, cooling, cooking, food storage, water supply, sewage treatment, commerce, medical services and transportation all depend on Avista. Avista's responsibilities are very great, indeed, and similar to those of local government, though more narrowly focused.

As a retiree, I am acutely aware of our family budget. Avista's request to increase power rates caught my attention when the local paper recently reported the costly effect on the average consumer's energy bill. When the general inflation rate has been around 1% for many years past and is expected to remain low going forward, and when Social Security and pension inflation adjustments have been and are expected to be in line with the rate of inflation, Avista's request to raise utility rates by many times the inflation rate is indeed eye catching.

I am a simple lay person, and maybe because I'm retired, I have a little more time to look into and respond to this matter...more so than working families who are busy raising kids and earning a living, but who will be equally affected by the proposed rates. The following comments pertain to all of the referenced rate cases because they affect our over-all energy and living expense. I don't have the will or expertise to delve into all the details of Avista's rate requests and operations, and am hoping the PUC does and will. I can't evaluate the legal and technical justifications Avista has put forward in its rate applications; I must depend on the PUC to do that for me. But I do have questions and concerns.

My over-arching request is for the PUC to scrutinize all aspects of Avista's operation to ensure it is running as efficiently and cost-effectively as possible, as if it were a competitively priced utility service, and to make public the PUC's findings on the PUC and Avista websites. After all, as a regulated monopoly, Avista enjoys exclusive service territory without free market forces, and therefore its customers are wholly dependent on the PUC to ensure fair energy pricing and reliability.

Regulated Monopoly

Avista serves its customers as a privileged franchised monopoly, thus avoiding competitive forces to provide efficient market pricing to the consumer. Even so, Avista is covered by a government approved return on assets as part of its rate approval process before the PUC. This is a level of

financial security that few other commercial industries enjoy. Therefore, it is imperative that the PUC make every effort to ensure that Avista operates efficiently first and foremost in the interest of the consumer. If the company expects to receive a minimum return on equipment, operations and infrastructure, then it must justify to the PUC every line item in its budget to ensure the costs are minimized and truly necessary for reliable customer service. The governing board of Avista, as a regulated monopoly, is not beholden to Avista's customers, but to its stock and bond holders. Whereas, for a municipal utility, the governing board must answer directly to the customer-citizens who vote them in or out of office. Therefore, the PUC must exert extraordinary oversight and dedication to ensure the regulated monopoly is efficient as if it was a competitive enterprise.

The following questions may be useful in evaluating Avista's operating efficiency.

Executive and Employee Compensation – Fair and Reasonable?

“Avista Corp. paid its top executive about \$5.5 million in total compensation (in 2014)...A typical household pays about 24 cents each month on their bills for Avista’s top five executives’ salaries and cash awards, Wuerst said.”

Source: <http://www.spokesman.com/stories/2015/feb/28/avistas-top-executive-earns-55-million-in-2014/>

Notice how the total compensation for these executives has jumped by 56% to over \$8.6 million in FY 2016:

Name/Title	Total Cash	Equity	Other	Total Compensation
<u>S. L. Morris</u> Chairman, President & CEO	\$1,883,564	\$1,878,223	\$11,925	\$3,773,712
<u>K. S. Feltes</u> Sr. Vice President & CHRO	\$586,976	\$466,520	\$11,925	\$1,065,421
<u>M. M. Durkin</u> Sr. Vice President, General Counsel, Corporate Secretary & CCO	\$645,717	\$466,520	\$11,925	\$1,124,162
<u>M. T. Thies</u> Sr. Vice President, CFO & Treasurer	\$748,072	\$596,958	\$15,900	\$1,360,930
<u>D. P. Vermillion</u> Sr. Vice President & ECO	\$720,677	\$608,106	\$15,000	\$1,343,783

Source: <http://www1.salary.com/AVISTA-CORP-Executive-Salaries.html>

By contrast the CEOs (City Administrators) of cities in Avista's service area range from City of Spokane (\$131,934; 2014 source: <http://www.spokesman.com/data/city-employee-salaries/>), City of Post Falls (\$123,028; <https://www.salaryexpert.com/salary/job/city-manager/united-states/idaho/post-falls>), and Coeur d'Alene (\$108,097 to 152,069; 2017 source: City of Coeur d'Alene). The 10 to 20-fold difference in CEO compensation begs the question, how fiscally responsible is Avista relative to its municipal counterparts who provide not only utility services, but public safety, recreation, transportation and other services to a combined customer base similar to Avista's? Idaho customers of Avista amount to 29% of the company's total customer base (source: Avista Corp) of 359,000 electric and 320,000 natural gas customers (source: <https://en.wikipedia.org/wiki/Avista>). I assume that the total number of individual service locations would be around 359,000 if such locations have both gas and electric services from Avista.

A comparative review of operating staff salaries and benefits may illustrate similar discrepancies in total compensation between Avista, local government and private enterprise.

The Proposed Rate Increase is Unfair to Avista's Customers

On July 27, 2017, the Coeur d'Alene Press published an article indicating that the average consumer will see large increases in energy costs if Avista's rates are approved. I added up the costs provided in that article and found that within 2 years customers would be paying 16% more for power and gas. I then reviewed our Avista billing records for my residence from 2012 to present and determined that our 2019 costs, based on our average annual power consumption, will increase by about 13% over the past 12 months. These rates are out of line with general inflation and interest rates, and so the question must be asked, is Avista managing its operations as efficiently as they should?

The Proposed Rate Increase Will Raise Prices of Local Goods and Services

To the extent that the cost of local products and services includes an energy component, the consumer will end up picking up the added costs through their purchases. I have not looked in detail at the proposed rates for non-residential customers, but would ask that the PUC consider the ripple effects on our local economy. As one example, energy costs are about 1/3 of the total cost of municipal drinking water and wastewater treatment services. If energy costs increase by 10%, then the water and wastewater service rates would need to increase by 3%. Similar effects could be found throughout the supply chain.

In 2007, Avista's energy-source mix was "about 54 percent hydroelectric, 30 percent natural gas, 13 percent coal, 3 percent biomass (coming from a Kettle Falls wood-burning plant that's too old to qualify as renewable under the initiative), and 1 percent wind power." (source: <https://www.spokanejournal.com/local-news/avista-shifts-mulls-own-wind-power/>). By comparison, BC Hydro company's energy is 92% hydro and their current residential power rate is \$0.1028/kWh in Canadian dollars (or \$0.0812/kWh in US dollars). My calculations indicate that Avista's effective rate in 2019 will cost my family \$0.106/kWh compared to \$0.094/kWh currently, a 13% increase. By "effective rate" I mean the total electrical service cost, including basic fees and energy charges. Are Avista's rates in line with BC Hydro, as a simple comparison, and is it operating as fiscally conservative as it could?

Cost of Serving New Customers (Sites)

It is unclear to me how Avista charges for the extension of its gas and power distribution and accounting systems for new customers. But as a policy issue, it is clear that existing customers (service locations) should not bear the burden of system expansion. The PUC should require Avista to recoup expansion costs only from new service locations. Do the proposed rates include system expansion costs?

System Repair and Replacement

If Avista's proposed rate increases reflect unusual repair and replacement costs, why weren't said costs anticipated, planned for and incorporated into the general rate structure so as to avoid catch-up rate jumps? Should the PUC require more scrutiny of Avista's maintenance funding process? Is Avista allowed a PUC-approved rate of return on infrastructure that Avista has already fully depreciated for tax purposes? If so, I wonder if that is a fair practice?

Proposed Merger With Hydro-One

Although the proposed merger might not directly pertain to the proposed rate cases, I think the PUC should carefully consider the state and national interest in assuring safe and reliable energy supplies.

Avista is hoping to get its merger with Hydro One approved by the various regulatory agencies and close the deal by end of 2018. The share price for AVA on July 6, 2017, was \$41.39; after the announcement to be purchased by Hydro One for \$53 per share, it jumped to \$52.35, a 26% increase. Avista's (AVA) P/E is now an alarmingly high 24, indicating investors' great optimism about the profitability of this utility. Although there may be no legal connection, to the casual eye there seems to be a nexus between the proposed rate increase and the merger, begging the question once again: is Avista operating as cost effectively as it should for the benefit of the consuming public?

The energy sector is one of several that were deemed "critical infrastructure" by the Patriot Act, and I think one must be very careful when considering the transfer of "critical infrastructure" to foreign control. As with defense, food, forests, energy resources, water, land and minerals, we need "extreme vetting" of ownership and control of basic resources in order to maintain security of our country.

Summary

As an Avista customer, I value and depend on reliable energy delivery. But I am perturbed by the proposed rapid rise in rates, which seems incongruous with the general rates of inflation and commodity gas prices. Thus, one is compelled to ask what is going on that is not so apparent in the operation of Avista? Without definitive proof that Avista is operating as cost-effectively as possible, the PUC should deny Avista's rate proposals.

Sincerely,



Michael A. Neher