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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:

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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**

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

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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%.

