

**Avista Corp.**  
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September 2, 2014

Public Utility Commission of Oregon  
Attn: Filing Center  
3930 Fairview Industrial Dr, SE  
Salem, OR 97302-1166

**RE: Advice 14-07-G/UG-\_\_\_ – Avista Corporation’s Request for General Rate Revision**

In accordance with Oregon Administrative Rules, Avista Corp., dba Avista Utilities (Avista or Company), respectfully submits an original and 30 copies of the Company’s trial brief, testimony and associated exhibits in support of its request for a general rate revision associated with the Company’s Tariff P.U.C OR. No. 5. Also enclosed with this filing is a Motion for Protective Order. The Company is requesting the proposed revisions to the following enclosed tariff sheets:

Fifteenth Revision Sheet 410	Canceling	Fourteenth Revision Sheet 410
Fourteenth Revision Sheet 420	Canceling	Thirteenth Revision Sheet 420
Fourteenth Revision Sheet 424	Canceling	Thirteenth Revision Sheet 424
Fourteenth Revision Sheet 440	Canceling	Thirteenth Revision Sheet 440
Fifteenth Revision Sheet 444	Canceling	Fourteenth Revision Sheet 444
Thirteenth Revision Sheet 456	Canceling	Twelfth Revision Sheet 456

Please note that Exhibit 401 and 402 of Jason Thackston are being provided in electronic format only due to the voluminous nature of these files. Avista’s CONFIDENTIAL Exhibit Nos 402, 404 and 501 associated Attachments 7, and 11 -18 are being provided under a sealed separate envelope, marked CONFIDENTIAL. Additionally, three (3) copies of supporting work papers have also been included with this filing.

Copies of the Company’s responses to the Standard Data Requests are being provided under separate cover.

Please direct any questions regarding this filing to Liz Andrews at (509) 495-8601.

Sincerely,

A handwritten signature in black ink, appearing to read "David J. Meyer", with a horizontal line extending to the right.

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

Enclosure

cc: See attached service list

## CERTIFICATE OF SERVICE

I **HEREBY CERTIFY** that I have this day served Direct Testimony and Exhibits in the Oregon Natural Gas General Rate Case Filing of Avista Utilities, a division of Avista Corporation, (Advice 14-07-G/UG-\_\_\_\_) upon the parties listed below by mailing a copy thereof, postage prepaid and/or by electronic mail.

Judy Johnson  
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I declare under penalty of perjury that the foregoing is true and correct.

Dated at Spokane, Washington this 29th day of August 2014.

  
Wendy Manskey  
Rates Coordinator

BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON

Advice 14-07-G/UG-\_\_\_\_

In the matter of the Application of )	
AVISTA CORPORATION, DBA )	TRIAL BRIEF OF
AVISTA UTILITIES for a General )	AVISTA CORPORATION
<u>Rate Revision</u> )	

Avista Corporation, doing business as Avista Utilities (“Avista” or “Company”), is filing tariff schedules, pursuant to ORS 757.205 and ORS 757.220, to effect a general revision for its natural gas customers in Oregon. This brief is submitted to meet the requirements of OAR 860-022-0019.

1.

Avista provides natural gas service in the State of Oregon and is a public utility subject to the Public Utility Commission of Oregon’s jurisdiction under ORS 757.005(1)(a)(A). Avista provides natural gas distribution service in southwestern and northeastern Oregon. The Company also provides electric and natural gas service within a 26,000 square mile area of eastern Washington and northern Idaho. As of December 31, 2013, Avista supplied retail electric service to 366,305 customers and retail natural gas service to 325,919 customers, including approximately 97,486 customers in Oregon who will be affected by the proposed rate revision. Avista’s principal place of business is located in Spokane, Washington.

2.

Avista requests that all notices, pleadings, and correspondence regarding this filing be sent to the following:

David J. Meyer, Esq.  
Vice President and Chief Counsel for  
Regulatory and Governmental Affairs  
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3.

The test period being used by the Company is the twelve months ended December 31, 2015. The Company's pro forma results of operations for the test period indicate that, at the current rate levels, Avista would earn a return on equity ("ROE") of 5.05 percent. This ROE is clearly not sufficient to provide Avista with a fair and reasonable return or allow the Company to attract capital at reasonable rates.

Avista's revised tariff schedules effect an increase in base rates (including natural gas costs) for Oregon retail customers of \$9,140,000, or 9.3 percent, which would produce an overall rate of return of 7.77 percent and a return on equity of 9.9 percent. Pursuant to ORS 757.220, the revised schedules contain an effective date of October 3, 2015.

4.

The Company acquired its Oregon natural gas operations from CP National in 1991. In the past 24 years that Avista has operated these properties, Avista has filed only five general rate

increase requests<sup>1</sup>. A combination of capital additions, declining margins and increases in general business expense now require the Company to request an increase in overall base retail rates of \$9,140,000.

The Company used the cost of service results prepared by Company witness Mr. Miller as a guide in the proposed spread of the requested increase to the various service schedules. As described in Company witness Mr. Ehrbar's testimony, given the size of the requested rate increase, the Company proposes that Schedule 410 should receive the same percentage of margin increase as the overall margin increase request in this case. In doing so, Schedule 410 would remain at a margin-to-cost ratio of almost 1.00 (unity). Schedule 420, however, has a margin-to-cost ratio of 0.92. This means the margin revenues provided by customers served under this schedule are below the full cost of serving these customers. They are, in essence, being subsidized by the other non-residential customer schedules. In order to address this issue and provide for a meaningful movement towards unity, the Company requests that Schedule 420 receive a greater than overall percentage increase, on a margin basis, than the Company's overall request. The Company is not proposing to change the rates for the other service schedules.

5.

Avista's direct case consists of the testimony and exhibits of the following witnesses:

(a) Policy and Operations – Exhibit 100. **Scott L. Morris**, Chairman of the Board, President and Chief Executive Officer of Avista Corporation, presents an overview of the filing and identifies the cost increases that make this filing necessary. Mr. Morris describes efforts to reduce operating costs and explains the Company's customer support programs that are in place

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<sup>1</sup> Dockets UG-153, UG-181, UG-186, UG-201 and UG-246.

to assist customers.

(b) Financial Overview, Capital Structure, and Overall Rate of Return – Exhibit 200.

**Mark T. Thies**, Senior Vice President and Chief Financial Officer, will address the Company's capital structure, the proposed cost of embedded debt and the overall rate of return. He will explain the actions the Company has taken to acquire needed capital and improve Avista's financial condition in recent years.

(c) Return on Equity – Exhibit 300. **Adrien M. McKenzie**, as Vice President of Financial Concepts and Applications (FINCAP), Inc., has been retained to present testimony with respect to the reasonableness of the Company's proposed overall capital structure and will testify in support of the proposed 9.9% return on equity.

(d) Gas Supply and Storage - Exhibit 400. **Jason Thackston**, Sr. Vice President, Energy Resources, will describe Avista's natural gas resource planning process, and provide an update on the Company's 2014 Natural Gas Integrated Resource Plan.

(e) Major Capital Investment Projects – Exhibit 500. **James Kensok**, Director, Federal and Regional Affairs, will describe the replacement of the Company's Customer Information System (CIS), and Avista's Aldyl A pipe replacement program.

(f) Revenue Requirement and Allocations - Exhibit 600. **Elizabeth M. Andrews**, Manager, Revenue Requirements, will discuss the Company's overall revenue requirement proposal. She will also explain forecasted operating results including expense and rate base adjustments made to actual operating results and rate base.

(g) Capital Projects – Exhibit 700. **Dave B. DeFelice**, Senior Business Analyst, will describe the Company's proposed regulatory treatment of capital investments in utility plant

through March 31, 2015.

(h) Long-Run Incremental Cost of Service – Exhibit 800. **Joseph D. Miller**, Senior Regulatory Analyst, sponsors the long-run incremental cost study for Oregon natural gas service. Mr. Miller discusses his study results and how each schedule's present and proposed rates compare to the indicated cost.

(i) Rate Design and Rate Spread – Exhibit 900. **Patrick D. Ehrbar**, Manager, Rates and Tariffs, discusses the spread of the annual revenue changes among the Company's general service schedules and related rate design. Mr. Ehrbar also discusses the Forecast Revenue Load Adjustment.

6.

The following exhibits are attached pursuant to OAR 860-022-0019:

- (a) Exhibit A. The information required by OAR 860-022-0019(1)(a)-(f).
- (b) Exhibit B. From Ms. Andrew's Exhibit 601, page 1, which shows the results of operations for Avista's Oregon jurisdiction before and after the proposed rate change, as required by OAR 860-022-0019(1)(g).
- (c) Exhibit C. This exhibit shows the effect of the proposed rate change on each class of customers as required by OAR 860-022-0019(1)(h). Exhibit C also contains information required by OAR 860-022-0030(1). Specifically, the exhibit shows, for each tariff schedule, the total number of customers affected, the total annual revenue derived under the existing schedule, and the amount of estimated revenue derived from applying the proposed rate revisions. For each tariff schedule, the exhibit also shows the average monthly use and resulting bills under both existing rates and proposed rates for characteristic customers.

7.

Avista Corporation respectfully requests that the Commission issue an order granting the rate relief requested in this filing and approving the proposed tariff schedules.

DATED: August 29, 2014.



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David J. Meyer

Vice President and Chief Counsel for Regulatory  
and Governmental Affairs

Avista Corporation

## EXHIBIT A

### INFORMATION REQUIRED BY OAR 860-013-0075(1)(b)(A)-(F)

- A. The dollar amount of total base revenues, including natural gas costs, that would be collected under the proposed rates is \$107,510,000.
- B. The dollar amount of revenue change requested is \$9,140,000.
- C. The percentage change in base revenues requested is 9.3 percent.
- D. The forecasted test period proposed is January 1, 2015 to December 31, 2015.
- E. The requested overall rate of return is 7.77 percent and the requested return on equity is 9.9 percent.
- F. The rate base proposed in this filing is \$198,448,000.

Exhibit B

AVISTA UTILITIES  
OREGON NATURAL GAS  
OREGON JURISDICTION FORECASTED RESULTS  
TWELVE MONTHS ENDED DECEMBER 31, 2015

Line No.	Description	PRESENT RATES			WITH PROPOSED RATES	
		Per Results of Operations Report <i>a</i>	Total Adjustments <i>b</i>	Restated 2015 AMA Test Period <i>c</i>	Proposed Revenues & Related Exp <i>d</i>	Proposed Total (AMA) <i>e</i>
1	OPERATING REVENUES					
2	Total General Business	\$94,290	\$607	\$94,897	\$9,140	\$104,037
3	Total Transportation	3,044	276	3,320	0	3,320
4	Other Revenues	90,950	(90,797)	153	0	153
5	Total Operating Revenues	188,284	(89,914)	98,370	9,140	107,510
6						
7	OPERATING EXPENSES					
8	Gas Purchased	138,794	(89,708)	49,086	0	49,086
9	Operation and Maintenance	14,430	(1,256)	13,174	49	13,223
10	Administration & General	7,595	508	8,103	215	8,318
11	Total Operation & Maintenance	160,819	(90,456)	70,363	264	70,627
12						
13	DEPRECIATION, AMORTIZATION, TAXES					
14	Taxes Other than Income	5,637	(1,328)	4,309	0	4,309
15	Depreciation & Amortization	6,679	3,275	9,954	0	9,954
16	Total Operating Expenses	173,135	(88,509)	84,626	264	84,890
17						
18	OPERATING INCOME BEFORE FIT/SIT	15,149	(1,405)	13,744	8,876	22,620
19						
20	INCOME TAXES					
21	Current Federal Income Taxes	1,102	(448)	654	2,907	3,562
22	Debt Interest	0	(309)	(309)	0	(309)
23	Deferred Federal Income Taxes	2,832	8	2,840	0	2,840
24	State Income Taxes	665	(126)	539	569	1,108
25	Total Income Taxes	4,599	(875)	3,724	3,476	7,201
26						
27	NET OPERATING INCOME	\$10,550	(\$530)	\$10,020	\$5,400	\$15,419
28						
29						
30	RATE BASE					
31	Utility Plant in Service	\$287,747	\$51,855	\$339,602	\$0	\$339,602
32	Accumulated Depreciation and Amortization	(98,025)	(12,134)	(110,159)	0	(110,159)
33	Accumulated Deferred FIT	(39,942)	(4,643)	(44,585)	0	(44,585)
34	Net Utility Plant	149,780	35,078	184,858	0	184,858
35						
36	Inventory	2,544	0	2,544	0	2,544
37	Prepaid Pension, Net of ADFIT (1)	0	4,318	4,318	0	4,318
38	Working Capital	0	6,728	6,728	0	6,728
39						
40	TOTAL RATE BASE	\$152,324	\$46,124	\$198,448	\$0	\$198,448
41						
42	RATE OF RETURN	6.93%		5.05%		7.77%

(1) Prepaid Pension Asset of \$6.53 million is offset by \$2.2 million Accumulated Deferred Federal Income Tax (ADFIT), resulting in a net Prepaid Pension rate base amount of \$4.3 million.

**Avista Utilities**  
**Docket No. UG-\_\_\_**  
**Rate Spread Summary**  
**Oregon - Gas**  
**Pro Forma 12 Months Ended December 31, 2015**

	Type of Service	Schedule Number	Avg. No. of Customers	Annual Therms	Avg. Use per Customer per Month	Revenue at Pres. Rates (\$000's)	Avg. Bill Under Pres. Rates	Revenue Percentage Increase	Revenue Increase (\$000's)	Avg. Increase per Customer per Month	Revenue at Prop. Rates (\$000's)	Avg. Bill Under Prop. Rates
1	Residential	410	86,298	49,097,140	47	\$61,343	\$58.79	9.8%	\$6,016	\$5.78	\$67,359	\$64.57
2	General Service	420	11,333	26,450,079	194	27,875	\$204.48	11.2%	3,124	\$22.92	30,999	\$227.40
3	Large General Service	424	81	4,438,427	4,576	3,376	\$3,481	0.0%	0	\$0	3,376	\$3,481
4	Interruptible Service	440	35	3,945,585	9,485	2,030	\$4,880	0.0%	0	\$0	2,030	\$4,880
5	Seasonal Service	444	3	253,423	6,181	198	\$4,831	0.0%	0	\$0	198	\$4,831
6	Transportation Service	456	35	36,627,242	87,208	3,075	\$7,321	0.0%	0	\$0	3,075	\$7,321
7	Special Contract	447	3	7,979,130	221,643	320	\$8,902	0.0%	0	\$0	320	\$8,902
8	Total		97,788	128,791,026		\$98,217		9.3%	\$9,140		\$107,357	

EXHIBIT C