

Rates



April 28, 2011

How rates are set

Avista is a regulated utility. That term – *regulated utility* – is important, because it means regulators set our rates. Sometimes there's a misperception that Avista is unregulated – a monopoly that can raise rates whenever it wants.

Actually, the opposite is true. Because we're a regulated utility, we must go through a detailed public process when we propose a rate change. We must demonstrate that the rate change is justified, or it won't be approved.

When our costs change, Avista applies to the state regulatory commissions for a rate change. They scrutinize every detail of our costs, review volumes of data and take public testimony. **Based on its investigation, the commission sets rates it believes serve the public interest** – rates that are **reasonable and fair for customers**, while allowing **Avista the opportunity to be a viable, healthy business** and earn a fair return for shareholders so we can continue delivering safe, reliable energy.

Avista invests hundreds of millions of dollars in our system every year to provide safe, reliable service.



Rates cover two kinds of costs

There is the cost of the energy and the cost of delivering and serving customers.

For electricity: **60** percent of your bill is the cost of energy itself—the cost of generating or purchasing electricity. **40** percent covers the cost of delivering that energy, serving our customers and energy conservation.

For natural gas: The wholesale cost of natural gas is about **65** percent of your natural gas bill. We have purchasing plans and decades of experience to help keep this cost as low as possible. But ultimately the cost is set by the market. We don't mark it up. Customers pay what we pay.

The cost of delivering that energy is about **35** percent of your natural gas bill.

Takeaway: The wholesale cost of energy is a major rate driver. The cost is volatile and fluctuates up and down.

Avista works hard to manage costs to keep rates as low as possible.

We're using new technology to automatically read customers' meters in Idaho and are dispatching gas servicemen with laptops in their trucks. Customers can conduct business with us through our automated phone system or the web. All of these changes were made to enhance the customer experience.



Investing in the future

The cost of delivering safe, reliable energy includes maintaining a huge system of pipes, poles, dams and substations. Many parts of our system are 30, 40 and even 50 years old.

It's similar to maintaining your house. There are ongoing maintenance expenses. And there are big expenses like a new roof or painting the house. We have the same kinds of expenses.

We invest hundreds of millions of dollars in our system every year so we can provide safe, reliable service for customers now and in the future. While we work hard to keep costs as low as possible, rates will likely increase in the future to recover these significant investments.

Quick Facts:

Avista provides **electricity and natural gas** to more than **450,000 homes** and businesses across **30,000 square miles**. Our service territory spans three states.

Substations: A **substation transformer** at a neighborhood substation can cost up to **\$1 million**.

Distribution Lines: Avista has **18,000 miles of distribution lines** traveling from substations to homes and businesses. The **poles** carrying these lines **cost about \$620 each**.

About **68 percent of the wood poles** supporting Avista's 230kV transmission lines are **at least 45 years old**.

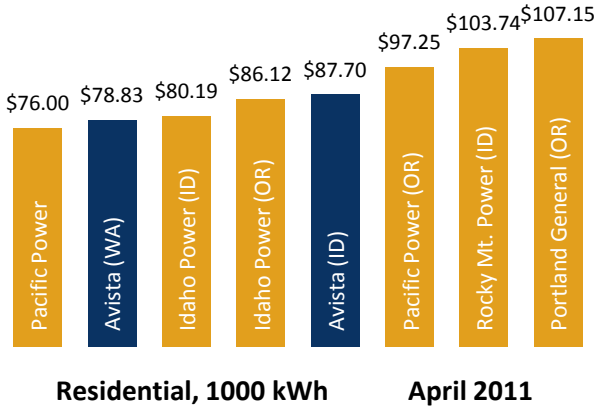
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Go to Avonet and click the conversation icon or ask your supervisor.

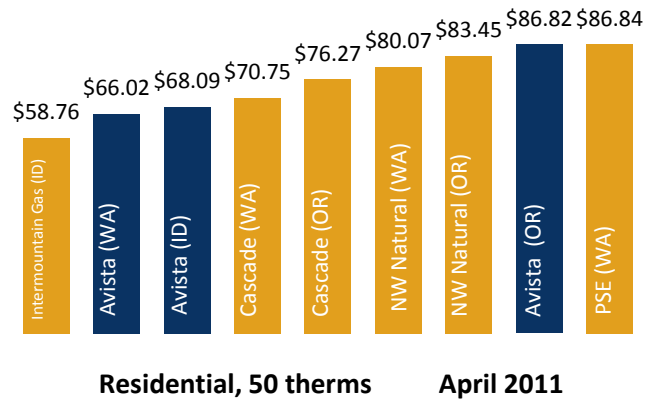
More rates

Compare

Electric



Natural Gas



Our electric and natural gas rates are among the lowest in the Northwest, when compared to other similar investor-owned utilities in the region.

PUDs & Co-ops

What about public utilities, like municipalities, electric cooperatives or public utility districts?

Some of them have **access to very low-cost power from the Bonneville Power Administration (BPA)**. So their rates are sometimes, but not always, lower.

The problem is, BPA has a limited amount of low-cost power. **As customer loads continue to grow, BPA and the public utilities will need to acquire new resources at higher prices** than the utility industry is experiencing today.

Rates Timelines

The **Washington Utilities & Transportation Commission (WUTC)** generally has **up to 11 months** to rule on a general rate case request.

The **Idaho Public Utilities Commission (IPUC)** has **up to seven months** to review and issue a ruling on general rate case filings.

The **Oregon Public Utility Commission (OPUC)** has **up to 10 months** to rule on a general rate case.



Rates Terms

IOU: Investor-Owned Utility: A utility organized as a business, usually financed by the sale of securities in the free market and managed by a board elected by its shareholders.

PUD: Public Utility District (in Washington) or People's Utility District (in Oregon). A governmental district established by voters to supply electric or other utility service. PUD boundaries often coincide with county boundaries.

PGA: Purchase Gas Adjustment: The Purchase Gas Adjustment is a mechanism that is periodically filed with the Utility Commissions and designed to recover or rebate the changes in the cost of natural gas purchased to serve customer loads.