

## DECISION MEMORANDUM

**TO:** COMMISSIONER KJELLANDER  
COMMISSIONER REDFORD  
COMMISSIONER SMITH  
COMMISSION SECRETARY  
COMMISSION STAFF

**FROM:** CATHLEEN M. MCHUGH

**DATE:** SEPTEMBER 24, 2013

**SUBJECT:** ADVICE NO. 13-05-E (AVISTA); RESIDENTIAL AND SMALL-FARM ENERGY RATE ADJUSTMENT CREDIT.

On July 30, 2013, Avista Corporation dba Avista Utilities (Avista) filed a tariff advice with the Idaho Public Utilities Commission (Commission) to revise its Tariff Schedule 59 Residential and Farm Energy Rate Adjustment. On September 5, 2013, Avista filed an updated tariff advice. In this updated tariff advice, Avista proposes that the rate credit be decreased from the existing 0.332¢ per kilowatt-hour (kWh) to 0.245¢ per kWh to be effective October 1, 2013. This change will coincide with other electric rate changes proposed by Avista.

### BACKGROUND

This rate credit is designed to pass through to qualifying customers the Residential Exchange Program (REP) benefits Avista receives from the Bonneville Power Administration (BPA). The REP was designed to allow the residential and small-farm customers of investor-owned utilities (IOUs) in the northwest to share in the benefits of the Federal Columbia River Power System. Avista passes these benefits through to its qualifying customers via a rate credit on monthly electric bills. The rate credit applies to residential and small-farm customers served under Schedules 1, 12, 22, 32, and 48.

Historically, the total amount of REP benefits an IOU received was a function of the IOU's Average System Cost (ASC), the Priority Firm (PF) Exchange rate, and the IOU's qualifying load.<sup>1</sup> Accordingly, Avista's REP benefits were calculated as Avista's qualifying load multiplied by the difference between Avista's ASC and the applicable PF Exchange rate. This would then be

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<sup>1</sup> BPA calculates both the ASC and the PF Exchange rate.

allocated between Avista's Idaho and Washington customers according to each state's share of the qualifying load.

In FY09, BPA applied a "Lookback Adjustment" to REP benefits received by each IOU (including Avista) in response to two Ninth Circuit cases that overturned the 2000 settlement among BPA, IOUs, and consumer-owned utilities (COUs). BPA employed this adjustment to withhold REP benefits from the IOUs in order to refund the COUs the REP benefits improperly paid to the IOUs during the settlement. Consequently, Avista's monthly REP benefits had been reduced by the Lookback amount set by BPA. BPA's Lookback Analysis was challenged in multiple lawsuits.

On July 26, 2011, BPA adopted a new Settlement Agreement that included the six IOUs, the three state commissions, BPA staff, and nearly all of the COUs. The Settlement Agreement fixed over a 17-year period the total amount of REP benefits to be paid to all IOUs.<sup>2</sup> These fixed REP benefits are allocated to the different utilities based on each utility's *relative* qualifying load as well as its *relative* ASC. Holding qualifying load constant, utilities with relatively high ASCs will receive more REP benefits than utilities with relatively low ASCs.

Furthermore, under the new Settlement, the Lookback Adjustment was discontinued. However, the Settlement did recognize that differences existed among the IOUs concerning how much of their original Lookback amount had been repaid. Therefore, the Settlement established "reallocations" among the IOUs. REP benefits are "reallocated" away from IOUs who paid back relatively less of their Lookback amounts and to IOUs who paid back relatively more. The reallocations are designed so that most IOUs both pay money into and receive money from the system.<sup>3</sup> Up to this point, Avista has owed approximately \$2 million a year in reallocation to the other IOUs and has received more than \$100,000 a year in reallocations from the other IOUs. After adjusting for the reallocation, Avista's total benefits are distributed to their Idaho and Washington customers according to each state's share of the qualifying load.

## THE TARIFF ADVICE

The proposed decrease in the rate credit reflects both the FY14 REP benefits and the under-refunded balance relating to the existing rate credit. Avista's share of the FY14 REP

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<sup>2</sup> An IOU still has to have an ASC higher than the PF exchange rate in order to receive REP benefits.

<sup>3</sup> The exceptions are Idaho Power and Puget Sound. Idaho Power only pays money into the system and Puget Sound only receives money from the system.

benefits is \$8.053 million. Of this, \$2.598 million is allocated to Idaho customers. The under-refunded balance for Idaho customers from the existing rate credit is \$0.333 million. This net benefit of \$2.931 million is then corrected for uncollectables,<sup>4</sup> which results in \$2.939 million of benefits to disburse.

Avista proposes to disburse the REP benefits to Idaho customers from October 1, 2013 through September 30, 2014. The projected usage during that time period is 1,198,206,000 kWh, which leads to a projected rate credit of 0.245¢ per kWh. For a customer using 930 kWh per month, the new credit would result in an increase in a monthly bill of \$ 0.81 or 1.0%. The actual increase will vary based on customer usage.

## STAFF ANALYSIS

During Staff's review of the original proposal, it entered into discussions with Avista on how to best allocate REP benefits between Idaho and Washington customers. It was agreed that REP benefits would be allocated based on each state's share of the qualifying load used by BPA to calculate the benefits. This led to Avista filing a substitute proposal with a credit slightly higher (0.005¢ per kWh) than their original proposal.

The total REP benefits received by Avista from BPA decreased 32% between FY12-FY13 and FY14-FY15.<sup>5</sup> As discussed above, REP benefits are allocated to the IOUs based on their *relative* qualifying loads and *relative* ASCs. Changes in relative qualifying loads or relative ASCs over time will lead to changes in REP benefits received.

While each IOU's share of the total qualifying load stayed more or less constant between the two time periods, there were significant changes in the growth of ASCs across the IOUs. Figure 1 shows each IOU's ASC for FY12-FY13 and FY14-FY15. Both Avista and PGE had fairly constant ASCs.<sup>6</sup> However, there were large changes in the ASCs for the other IOUs. Specifically, the ASC growth rate was: 28 percent for Northwestern Energy, 16 percent for Puget Sound Energy, 10 percent for Idaho Power Company, and 8 percent for PacifiCorp. Therefore, while there was little absolute change to Avista's ASC between FY12-FY13 and FY14-FY15, there was substantial change in how it compared to the ASCs of the other IOUs. In FY12-FY13,

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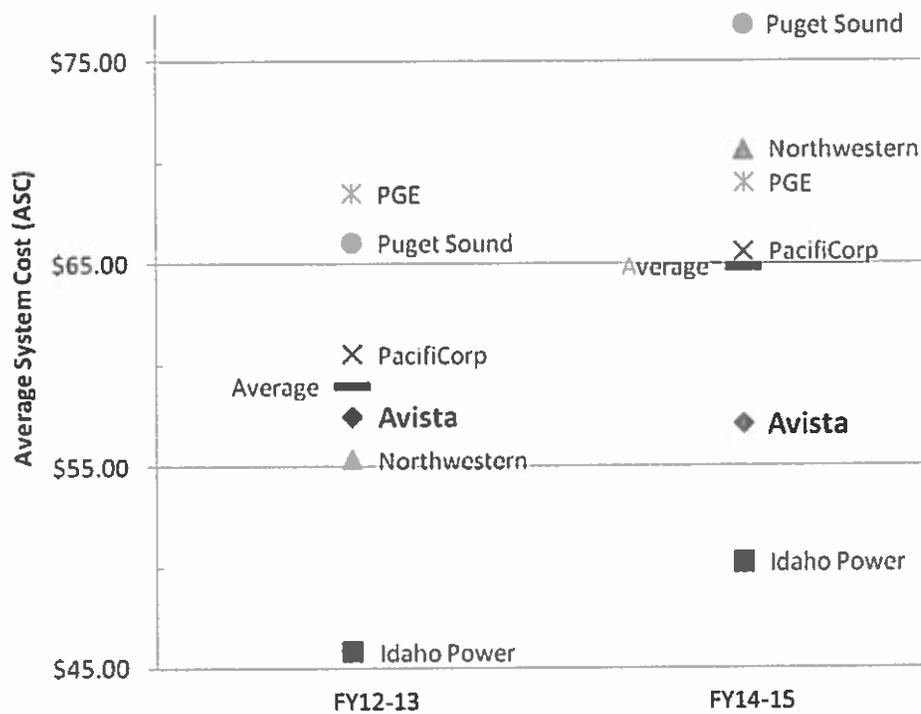
<sup>4</sup> The conversion factor for uncollectibles is 0.99735.

<sup>5</sup> BPA calculates REP benefits every two years (in conjunction with a BPA rate case). Benefits were calculated for FY12-FY13 in 2011 and for FY14-FY15 in 2013.

<sup>6</sup> Avista's ASC decreased by 1 percent while PGE's ASC increased by 1 percent.

Avista’s ASC was in the middle of the distribution – it was \$11.02 less than the largest ASC and \$11.67 more than the smallest ASC. By FY14-FY15, Avista’s ASC was more towards the bottom of the distribution – it was \$19.78 less than the largest ASC and only \$6.83 more than the smallest ASC. This change in relative ASC led to a decrease in the REP benefits allocated to Avista.

Figure 1: Average System Costs (ASCs), FY12-FY13 versus FY14-FY15



For Avista’s Idaho customers, their decrease in REP benefits was mitigated by the positive balance in their REP balancing account.<sup>7</sup> Thus, for Idaho customers, the REP rate credit will not decrease by the full 32 percent – instead, it will decrease by 26 percent (from 0.332¢ per kWh to 0.245¢ per kWh).

Avista asked for an effective date of October 1st in order to coincide with other electric rate changes it proposed. Staff believes the proposed credit amount of 0.245¢ per kWh to be correctly computed by Avista and recommends approval with an October 1, 2013 effective date.

<sup>7</sup> As discussed above, the under-refunded balance at the start of FY14 will be \$0.333 million.

**COMMISSION DECISION**

Does the Commission wish to approve Avista's proposed change in its BPA residential and small-farm energy rate adjustment credit from the existing 0.332¢ per kWh to 0.245¢ per kWh effective October 1, 2013?

  
Cathleen M. McHugh

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