

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER RAPER
COMMISSION SECRETARY
LEGAL
WORKING FILE

FROM: MARK ROGERS

DATE: AUGUST 28, 2015

SUBJECT: AVISTA ADVICE NO. 15-03-E; RESIDENTIAL AND SMALL-FARM
ENERGY RATE ADJUSTMENT CREDIT

On July 31, 2015, Avista Corporation dba Avista Utilities (Avista) filed a Tariff Advice with the Commission to revise its Tariff Schedule 59 Residential and Farm Energy Rate Adjustment. In this Tariff Advice, Avista proposes that the rate credit be decreased from the existing 0.278¢ per kilowatt-hour to 0.021¢ per kWh to be effective October 1, 2015. This change will coincide with its electric rate changes proposed in the Power Cost Adjustment (PCA) filing.

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 to its qualifying customers through 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.

On July 26, 2011, the BPA adopted a settlement agreement that included the six IOUs, the three state commissions, the BPA staff, and nearly all of the customer-owned utilities (COUs). The settlement agreement fixed over a 17-year period the total amount of REP benefits to be paid to all IOUs. The fixed REP benefits are allocated to the different utilities based on

each utility's relative qualifying load, their Average System Cost (ASC), as well as the Priority Firm (PF) Exchange Rate determined by the BPA.¹

Avista's current rate includes changes from the 2013 agreement between Staff and the Company on the way REP benefits are allocated between Idaho and Washington. Specifically, it was agreed that REP benefits would be allocated based on each state's share of the qualifying load used by the BPA. Staff and the Company also agreed to only include uncollectable expenses in the revenue conversion factor, which changed the way the revenue requirement is calculated for REP benefits.

THE TARIFF ADVICE

The proposed decrease in the rate credit reflects both the FY16 REP benefits as well as an over-refunded balance from the existing rate credit. Avista's share of the FY16 REP benefits is \$1.25 million; roughly 0.6% of the total REP benefits.² Of this \$1.25 million, 33.21%, or \$0.404 million, is allocated to Idaho customers. The \$0.141 million over-refunded balance for Idaho customers from the existing rate credit is deducted from the Idaho allocated \$0.404 million. The resulting benefit of \$0.263 million is then corrected for uncollectable expenses³, which results in \$0.264 million of benefits to disburse.

Avista proposes to disburse the REP benefits to Idaho customers from October 1, 2015 through September 30, 2016. The projected usage during that time period is 1,243,945,858 kWhs, which leads to a rate credit of 0.021¢ per kWh. Since the previous existing rate credit was 0.278¢ per kWh, the current rate of 0.021¢ per kWh reduces the benefits received by residential customers by approximately \$3.1 million, or 0.257¢ per kWh. For the average Avista customer using 929 kWh per month, the reduction in credit would result in an increased monthly bill of \$2.39, or approximately 2.80%. The actual increase will vary based on customer usage.

¹ When the ASC is higher than the PF Exchange rate, BPA purchases power from Avista at the higher ASC and, in turn, Bonneville agrees to sell Avista power at BPA's lower PF Exchange Rate in an amount necessary to serve eligible customers. The BPA calculates each IOU's ASC, and PF Exchange Rate.

² The BPA reports a total FY16-17 REP benefit of \$214.10 Million. This can be found in BPA table 2.4.11 online at https://www.bpa.gov/Finance/ResidentialExchangeProgram/Documents/BP_16_Table%202.4.11.pdf.

³ The conversion factor for uncollectible expenses is 0.99735.

STAFF ANALYSIS

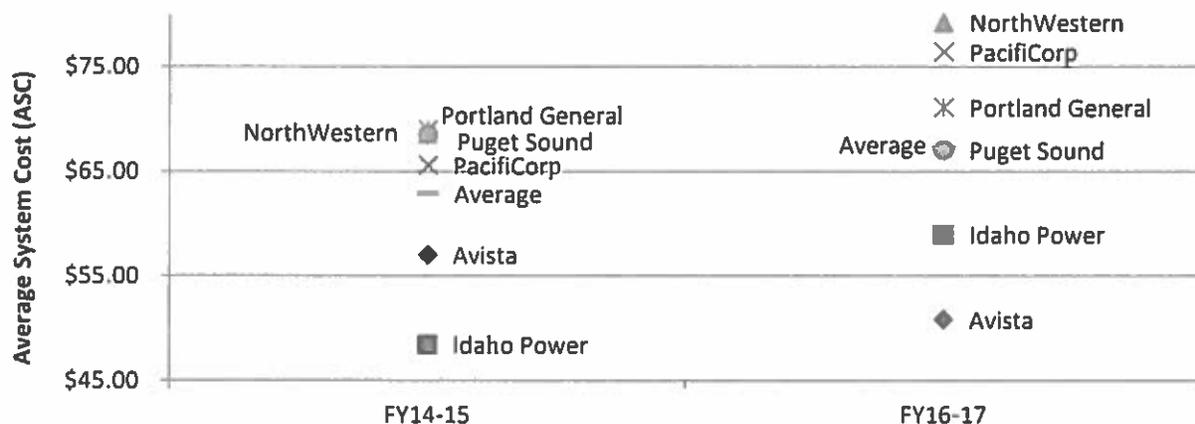
The total REP benefits received by Avista from the BPA decreased nearly 85% from the previous REP calculation in FY14-15.⁴ Table 1 below shows the reduction of REP benefits due to the large decrease in Avista's ASC. In Avista's case, the ASC decreased significantly due to an 11% decrease in both production and transmission costs.⁵

Table 1: Comparison of Avista's ASC, PF Exchange Rate and Total REP, FY14-15 versus FY16-17

	FY14-15	FY16-17
1 ASC (per MWh)	\$ 57.05	\$ 50.87
2 Priority Firm Exchange Rate (per MWh)	\$ 54.97	\$ 50.55
3 Exchange Loads (per MWh)	3,867,544	3,897,338
4 Total REP Credit ((1-2)*3)	\$ 8,053,387	\$ 1,254,163

Of all six IOUs participating in the REP, Avista has the lowest ASC. Figure 1 below shows that all IOUs increased their ASC since FY14-15, with the exceptions of Avista with an 11% decrease, and Puget Sound Electric with a 2% decrease. The effect of these changes now means that Avista's ASC is 24% below the ASC average of all six IOUs.

Figure 1: Average System Costs (ASCs), FY14-15 versus FY16-17



⁴ Line 4 of Table 1 shows a decrease in REP from \$8.053 million to \$1.254 million. The BPA calculates REP benefits every two years (in conjunction with a BPA rate case). Benefits were calculated for FY14-15 in 2013 and for FY16-17 in 2015.

⁵ The ASC calculation is comprised of the sum of company's production costs and transmission costs divided by the contract system load. Production costs decreased from \$468.6 million in FY14-15 to \$415.3 million in FY16-17. Transmission costs decreased from \$85.8 million in FY14-15 to \$76.6 million in FY16-17. The contract load stayed roughly constant at 9,319,245 MWh.

For Avista's Idaho customers, this decrease in REP benefits is exacerbated because of an over-refunded balance of \$0.141 million in the REP balancing account.⁶ Thus, for Idaho customers, REP benefits will decrease by 84% due to the reduced ASC and an additional 6% due to the over refunded balance for a total decrease of roughly 92%.

Avista asked for an effective date of October 1 in order to coincide with its electric rate changes proposed in the Power Cost Adjustment (PCA) filing. Staff believes the proposed credit amount of 0.021¢ per kWh is correctly calculated and recommends approval with an October 1, 2015 effective date.

COMMISSION DECISION

Does the Commission wish to approve Avista's proposed change to its BPA residential and small-farm energy rate adjustment credit from the existing 0.278¢ per kWh to 0.021¢ per kWh effective October 1, 2015?

for  _____
Mark Rogers

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⁶ As discussed above, the over-refunded balance at the start of FY16 will be \$0.141 million.