

SCOTT WOODBURY  
DEPUTY ATTORNEY GENERAL  
IDAHO PUBLIC UTILITIES COMMISSION  
PO BOX 83720  
BOISE, IDAHO 83720-0074  
(208) 334-0320  
BAR NO. 1895

Street Address for Express Mail:  
472 W. WASHINGTON  
BOISE, IDAHO 83702-5983

Attorney for the Commission Staff

## **BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

<b>IN THE MATTER OF THE APPLICATION OF</b>	)	
<b>AVISTA CORPORATION DBA AVISTA</b>	)	<b>CASE NO. AVU-E-01-13</b>
<b>UTILITIES -WASHINGTON WATER POWER</b>	)	
<b>DIVISION (IDAHO) FOR AUTHORITY TO</b>	)	
<b>IMPLEMENT A RESIDENTIAL AND SMALL</b>	)	<b>COMMENTS OF THE</b>
<b>FARM ENERGY RATE ADJUSTMENT</b>	)	<b>COMMISSION STAFF</b>
<b>CREDIT.</b>	)	
	)	

---

**COMES NOW** the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Commission Notices issued on August 24, 2001 and September 13, 2001 in Case No. AVU-E-01-13 submits the following comments.

On September 10, 2001, Avista Corporation dba Avista Utilities—Washington Water Power Division (Idaho) revised its August 16 Application with the Idaho Public Utilities Commission (Commission) requesting authority to implement a Schedule 59 residential and farm energy adjustment credit of 0.337¢ per kilowatt hour (a revision to its August 16 filing of 0.439¢ per kilowatt hour). The revision reflects a recent determination of BPA regarding the monetary benefit of the Firm Power Supply Agreement. The purpose of the energy rate adjustment credit is to pass through to qualifying electric residential and small farm customers the estimated benefits to be derived under the Residential Exchange Settlement Agreement between Avista and the Bonneville Power Administration (BPA) for the contract year October 1, 2001 through

September 30, 2002. In its Settlement Agreement with BPA, Avista received system rights to 90 aMW of benefits from the federal hydropower system beginning October 1, 2001.

## **BACKGROUND**

The Northwest Regional Power Act establishes a Residential Exchange Program to provide benefits to residential and small farm consumers of Pacific Northwest Utilities. The Settlement Agreement between Avista and BPA settles the parties' rights and obligations for the Residential Exchange Program for the ten-year term of the Agreement, October 1, 2001 through September 30, 2012. The proposed rate credit will be adjusted periodically over the 10-year term to match the actual benefits from the Exchange Agreement.

### **Explanation of Benefits**

The benefits from the Exchange Agreement consist of three components: a monetary benefit, a firm power sale benefit, and a firm power reduction benefit. A description of the benefits is set forth in the Company's Application. The total benefit amount may vary based on the Company's election of options. The actual benefits credited to customers in the first year will be different than the actual benefits received from BPA under the Agreement due to differences in actual and estimated retail loads, and/or market price of power and BPA's Residential Load (RL) Firm Power rate. Therefore, Avista is proposing a true-up mechanism to true-up the difference over time between the benefits credited to customers and the actual benefits received from BPA.

### **Accounting, Interest, True-up**

Benefits derived as a result of the Settlement Agreement will be deferred to Account 254—Other Regulatory Liabilities. A separate subaccount will be used to distinguish the residential exchange from other items that may be included in Account 254. The payment amounts from BPA to Avista will be directly credited to Account 254. The payment amounts include the monetary benefit, the firm power reduction benefit and the cash payment for power Avista chooses not to take. Charges for wheeling and losses will be debited to Account 254. The payment for power deliveries taken from BPA will be charged to Account 555—Purchased Power Expense. The benefit for residential and small farm customers associated with the power deliveries taken will be the difference between the Mid-C price and the amount paid to BPA for the power. The benefit connected with power deliveries taken will be accounted for by debiting Account 557—Other Power Supply Expense and Crediting Account 254. The result being that

the charges to Account 555 and Account 557 will reflect a purchase power expense amount equivalent to having purchased power at the average Mid-C price for the month. Charges to Account 555 and Account 557 will be included in the calculation of deferred power costs under the PCA mechanism.

Account 254 will be amortized by debiting Account 254 and crediting Account 407.4—Regulatory Credits by an amount equal to the amount of revenue credit passed through to customers during the month. Deferred federal income taxes will be recorded. Interest will be calculated on the balance of Account 254 in similar fashion to the calculation of interest on PCA balances. It is expected that the rate credit will be revised on an annual basis and may be revised more often, if necessary, depending on how close actual results compare to estimates. A balance in Account 254 will reflect the difference between actual benefits and the amount of credit passed on to residential and small farm customers. The balance in Account 254 will be part of the calculation of any revision to the rate credit.

### **Energy Rate Adjustment Credit**

The Company proposes to pass through the estimated benefit amount on a uniform cents per kilowatt hour basis to all qualifying customers served under Schedules 1, 12, 22, 32 and 48. The percentage reductions applicable to the individual rate schedules are as follows:

Schedule 1	Residential Service	-6.17%
Schedule 12	Residential and Farm General Service	-4.44%
Schedule 22	Residential and Farm Large General Service	-6.74%
Schedule 32	Residential and Farm Pumping Service	-6.01%
Schedule 48	Residential and Farm Area Lighting	-2.34%

Actual percentage reductions may vary according to factors contained in certain rate schedules. The overall reduction in revenue amounts to approximately \$3.5 million or about 6% for the group of qualifying residential and small farm customers as a whole. The resulting decrease for a residential customer using 1,000 kWh per month would be 6.12% or \$3.37 per month.

The Company is proposing that the Schedule 59 rate credits be effective coincident with the date that the new rates covering the Company's proposed Power Cost Adjustment surcharge become effective. Reference Case No. AVU-E-01-11. Having the same effective

date, the Company states, will avoid residential and small farm customers from having a rate increase followed by a rate reduction.

## **STAFF COMMENTS**

The BPA credit agreement between BPA and Avista is a culmination of three years of negotiations. BPA, Avista, PUC Staff, and other Utilities were involved in the development of the Residential Exchange Contract. The Agreement provides Avista's residential and small farm customers a benefit from the BPA system they have not received for some time. Staff believes the negotiated agreement provides a significant benefit to Avista's residential and small farm customers.

### **Contract Terms**

As stated in the Company's filing, there are several choices that Avista must make upon executing the Residential Exchange contract. The most significant decision Avista must make is whether to take the monetary payment for the contract period or take the BPA power at the RL rate with the option of monetizing the BPA power purchase at a future market price. While it is true that the decision has been made for the first year, the most cost effective decision for the remaining contract period cannot be accurately determined. Avista must take into consideration a number of variables forecast into the future to compare the economic benefit of the various contract options. Because the Company did not provide an evaluation of benefits beyond the first year and the Company's decision on the overall contract terms is yet undecided, Staff's review of this Application will be limited to the mechanism proposed to distribute the credit. Staff does not believe that the ultimate terms of the Contract will materially affect the operation of the credit mechanism provided the mechanism includes the annual true-up provision.

### **Accounting and Rate Making Treatment**

The Company proposes a rate reduction credit of approximately 6% for qualifying customers. The 6% credit was based on customer usage projections and first year benefits derived from the monetization of the right to contract power. The Company's decision to monetize the first year is clearly the best option based on the Company's one-year evaluation and it is on this basis that the Schedule 59 credit amount was determined.

More specifically, Avista has established the Schedule 59 rates by summing the estimated first year benefits of the agreement and spreading them over the estimated annual energy consumption of qualifying customers. As previously indicated, the benefits can consist of

money paid by BPA directly to Avista to reflect the value of power not actually delivered. It can also reflect the value of purchasing energy from BPA at the BPA RL rate. While the five-year monetary benefit is essentially fixed, the estimated benefits due to BPA power purchases are somewhat more complicated. In either case the benefits are directly passed through to customers.

Avista proposes to utilize the PCA to recover its cost of benefits paid to residential and small farm customers when power is purchased from BPA at the RL rate. This methodology incorporates the RL purchase price and the estimated benefit using the Mid-C index as a purchase power expense. Both the benefit and the purchase power expense are proposed to pass through the PCA. All customer consumption is ultimately used to recover the expenses that essentially reflect what would have occurred but for the BPA purchase. Residential and small farm customers then receive a credit to offset benefit expenses passed through the PCA. Staff has reviewed the PCA portion of the methodology and is satisfied that benefits derived from BPA purchases at the RL rate are reasonably calculated and equitably distributed to the appropriate customers.

Because actual usage and the final credit amounts will deviate from projections, Avista's mechanism provides a true-up to actual results on an annual basis. The true-up, if any, from the past year will be combined with the estimated credit for the upcoming year and passed on to individual customers.

Staff believes the combination of the true-up, the use of the PCA, and Schedule 59 will properly pass through the credits to customers. It will also provide Avista the accounting flexibility to incorporate future contract provisions as may be executed. The true-up provision and accounting as presented in the Company's proposal is essential to the timing of the filing and the nature of the BPA Credit Contract.

### **Timing**

The Company originally requested Tariff Schedule 59 become effective September 15, 2001 to coincide with the effective date of the current PCA filing. It is the Company's desire to have the effective dates match in order to avoid customer confusion over two rate changes so close together. Delays in both this case and the PCA filing make an effective date of September 15, 2001 impossible. Staff therefore recommends that the effective date of Schedule 59 coincide with the effective date of any rate change ultimately approved in the PCA proceeding.

## **STAFF RECOMMENDATION**

Staff believes that the Company's proposed methodology provides accounting and contracting flexibility while at the same time properly quantifies and distributes BPA credits to qualifying customers. Staff recommends approval of the Company's credit mechanism as proposed. Staff further recommends that Tariff Schedule 59 be approved at the proposed rate to become effective concurrent with any changes in rates associated with the current PCA filing case number AVU-E-01-11. Finally, Staff recommends that the mechanism be closely monitored, at least initially, to assure that credits provided to customers reasonably matches benefits derived.

Respectively submitted this                      day of September 2001.

---

Scott Woodbury  
Deputy Attorney General

Technical Staff: Michael Fuss

SW:i:umisc/comments/avue01.13swmfuss