

LISA D. NORDSTROM
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0314
IDAHO BAR NO. 5733

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

Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION OF)
AVISTA CORPORATION FOR A) CASE NO. AVU-E-02-7
MODIFICATION TO THE RESIDENTIAL AND)
SMALL FARM ENERGY RATE ADJUSTMENT)
CREDIT.) COMMENTS OF THE
) COMMISSION STAFF
)
_____)**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Lisa D. Nordstrom, Deputy Attorney General, and in response to the Notice of Application, Notice of Modified Procedure and Notice of Comment Deadline issued in Order No. 29111, submits the following comments.

BACKGROUND

On August 30, 2002, Avista Corporation (Avista) filed an Application seeking modification of the Energy Rate Adjustment Credit (BPA Credit), which passes through the estimated benefits of the Residential Exchange Settlement Agreement between Avista and the Bonneville Power Administration (BPA) to qualifying electric residential and small farm customers. The Company proposes that the customer credit be increased from 0.337¢/kWh to 0.347¢/kWh effective October 12, 2002.

CALCULATION OF THE BPA CREDIT

The BPA credit was first put in place last year by Order No. 28869 in Case No. AVU-E-01-13. That case also established the method to calculate the credit on an annual basis. The method is composed of the following steps:

- 1) Estimate the Idaho share of the dollar amount of the credit for the coming year.
- 2) Establish the true-up amount by determining the difference between last year's credit provided to customers and the actual credit amount that Avista received from BPA. The true-up also includes the associated interest on monthly differences.
- 3) Determine the additional revenue credit, which consists of reduced regulatory fees and uncollectibles resulting from the BPA credit. These reduced costs increase the credit provided to Idaho customers by a small amount.
- 4) Estimate next year's expected kWh sales that will be subject to the BPA credit.
- 5) Add the estimated credit, the true-up amount and the additional revenue credit. Divide this amount by expected kWh sales to determine next year's rate.

The Company's application of the approved methodology can be found at the bottom of Page 1 of Attachment No. 2 to the Company's Application and results in the proposed BPA credit of 0.347¢/kWh.

The method to calculate the annual BPA credit is composed of: 1) estimated dollar and kWh amounts for the coming year, and 2) known dollar and kWh amounts from the previous year that can be verified through audit. It is important that the estimated amounts be relatively accurate to avoid large true-ups. It is also important that actual amounts from the past year be audited to verify the accuracy of the true-up since it will effect the rate proposed for the coming year. In this case, the proposed true-up increases the credit representing 6% of the total.

ACCOUNTING TREATMENT, TRUE-UP & INTEREST

In addition to establishing the BPA Credit, Commission Order No. 28869 (Case No. AVU-E-01-13) stated how the accounting, interest and true-up was to be handled. The Order states:

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 to Avista will be directly credited to Account 254.

...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, will amortize Account 254. 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 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.

Order No. 28869 at Page 2.

Staff has audited the workpapers provided by the Company that support the entries into the deferral accounts. The Company has accounted for the BPA credit in compliance with Order No. 28869 and Staff found the actual amounts recorded in Account 254 to be correct.

Staff has calculated the actual true-up balance as of August 31, 2002 to be \$318,470.40. The Company estimated the true-up balance as of November 30, 2002 to be \$(213,544.32) based on amounts projected for the months of August through November. The estimates for August 2002 were reasonably close to the actuals for August, supporting the Company's use of a partial projection in establishing the new energy rate adjustment credit. Staff has reviewed the true-up calculations and finds them to be acceptable. It is reasonable to include the estimates in the calculation along with the forecast to determine next year's rate credit.

As Order No. 28869 directed, the Company is using the customer deposit rate to calculate the carrying charges. The simple interest method is properly used to calculate interest for the current month based on the end of the previous month's balance. For example, the interest on the balance (the difference between the BPA payments and what has been credited back to customers) as of November 31, 2001 is calculated using the customer deposit rate in effect in December 2001, and recorded in the month of December 2001. The interest rate changes annually on January 1. Avista did not change the customer deposit rate until April 2002 but

made the proper correcting entries back to January. The actual amount of interest recorded as of August 30, 2002 is \$6,538.85.

STAFF RECOMMENDATION

The Staff recommends approval of the Company proposed BPA Credit of 0.347¢/kWh with an effective date of October 12, 2002. The Staff believes that the previously approved methodology for determining the credit has been applied as intended by the Commission and Staff's audit has verified the true-up amounts. Avista's estimate of the BPA credit amounts and energy sales subject to the credit have proven to be accurate as evidenced by the true-up amounts and the small adjustment in the amount of the credit.

Respectively submitted this day of September 2002.

Lisa D. Nordstrom
Deputy Attorney General

Technical Staff: Kathy Stockton
 Keith Hessing

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