

David J. Meyer
Vice President and Chief Counsel of
Regulatory and Governmental Affairs
Avista Corporation
1411 E. Mission Avenue
P. O. Box 3727
Spokane, Washington 99220
Phone: (509) 489-0500, Fax: (509) 495-8851

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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE POWER COST)	CASE NO. AVU-E-07- <u>07</u>
ADJUSTMENT (PCA) ANNUAL RATE)	
ADJUSTMENT FILING OF AVISTA)	DIRECT TESTIMONY OF
CORPORATION)	RONALD L. MCKENZIE

FOR AVISTA CORPORATION

1 **Q. Please state your name, the name of your employer and your business address.**

2 A. My name is Ronald L. McKenzie. I am employed by Avista Corporation at 1411
3 East Mission Avenue, Spokane, Washington.

4 **Q. In what capacity are you employed?**

5 A. I am employed by Avista as Manager of Regulatory Accounting in the State and
6 Federal Regulation Department.

7 **Q. Please state your educational background and professional experience.**

8 A. I graduated from Eastern Washington University in 1973 with a Bachelor of Arts
9 Degree in Business Administration, majoring in Accounting. I joined the Company in September
10 1974. I obtained a Master of Business Administration Degree from Eastern Washington
11 University in 1989. I have attended several utility accounting and ratemaking courses and
12 workshops. I have held various accounting positions within the Company. I have served in the
13 State and Federal Regulation Department for the majority of my career with the Company.

14 **Q. What is the scope of your testimony in this proceeding?**

15 A. My testimony provides a status report of the accounting entries and account
16 balances related to the Idaho Power Cost Adjustment (PCA) for the twelve months ended June
17 30, 2007. My testimony also addresses the proposed surcharge to be effective October 1, 2007,
18 which will replace the existing surcharge that will expire on September 30, 2007.

19 **Q. Are you sponsoring an Exhibit?**

20 A. Yes. I am sponsoring Exhibit No. ___ (RLM-1), consisting of a sheet showing the
21 impact of the proposed PCA surcharge by rate schedule, a sheet showing the calculation of the
22 proposed uniform cents per kilowatt-hour PCA surcharge of 0.267¢, and the proposed PCA
23 tariff, Schedule 66.

1 **Q. Would you please explain the recent order that was issued regarding the**
2 **review of the PCA methodology?**

3 A. Yes. On June 29, 2007 the Commission issued Order No. 30361 in Case No. AVU-
4 E-07-01. That case dealt with the review of the PCA methodology and method of recovery. The
5 Commission approved a change in the PCA methodology from a trigger and cap mechanism to a
6 single annual PCA rate adjustment filing requirement. The Commission approved the following
7 procedural schedule for administering the annual PCA filings:

8 August 1 Company filing for prior July – June deferral period
9 September 1 Review and comments by Staff and other interested parties
10 October 1 Commission Order and effective date of PCA rate adjustment

11 The Commission approved a change in the method of PCA deferral recovery from a uniform
12 percentage basis to a uniform cents per kilowatt-hour basis effective with the October 1, 2007
13 rate change. And, finally, the Commission approved a continuation of the existing 2.448% PCA
14 through September 30, 2007.

15 **Q. Does the present filing conform to the requirements of Order No. 30361?**

16 A. Yes. The proposed PCA rate adjustment is based on the unrecovered deferral
17 balance at June 30, 2007. Surcharge amortization associated with revenue to be collected from
18 the remaining term of the existing surcharge is used to reduce the deferral balance that is to be
19 recovered by the new PCA surcharge rate. The proposed PCA surcharge rate is a uniform cents
20 per kilowatt-hour rate of 0.267¢ to be effective October 1, 2007.

21 **Q. Would you please show the change in the unrecovered deferral balance from**
22 **June 30, 2006 to June 30, 2007?**

1 A. Yes. The change in the unrecovered deferral balance from June 30, 2006 to June
2 30, 2007 is shown below:

3	Unrecovered balance at June 30, 2006	\$1,517,103
4	Deferrals (July 2006 - June 2007)	13,239,763
5	Centralia gain over-refund transferred to PCA deferral	6,380
6	Amortizations related to surcharge revenues (July 2006 – June 2007)	-4,691,623
7	Interest	<u>501,895</u>
8	Unrecovered balance at June 30, 2007	<u>\$10,573,518</u>

9 **Q. Would you please explain the components listed above?**

10 A. Yes. The deferral amount of \$13,239,763 represents the Idaho jurisdictional share
11 of the actual power costs that were greater than authorized costs and deferred under the PCA
12 mechanism by Avista for the twelve months ended June 30, 2007. Mr. Storro discusses the
13 components that make up this amount.

14 The Centralia gain over-refund relates to the pass-through to customers of the customer
15 portion of the gain on sale of the coal-fired Centralia Power Plant and the related Skookumchuck
16 hydroelectric generation facility. Commission Order No. 30166 in Case No. AVU-E-06-08,
17 dated October 31, 2006 approved termination of the rate adjustment credits used to pass-through
18 the gain and approved Avista's request to transfer any over- or under-refunded balance to the
19 PCA deferral account. The amount transferred to the PCA deferral account turned out to be an
20 over-refund of \$6,380.

21 The amount for amortizations related to surcharge revenues of -\$4,691,623 represents the
22 amount of surcharge revenues for the twelve months ended June 30, 2007, net of revenue-related
23 expenses (commission fees and uncollectibles). The current level of surcharge rates of 2.448%
24 was made effective April 15, 2005 by Order No. 29752 dated April 12, 2005 in Case No. AVU-
25 E-05-1. At that time the surcharge rates were lowered to offset the increase in base tariff rates to

1 recover costs associated with the purchase of the second half of the Coyote Springs 2 generating
2 plant. The existing surcharge was extended through September 30, 2007 by Order No. 30361
3 dated June 29, 2007.

4 The \$501,895 interest amount represents interest for the twelve-month period July 1,
5 2006 through June 30, 2007. Interest for the twelve-month period was calculated using the
6 Customer Deposit Rate (July-December 2006 of 3%, January-June 2007 of 5%) on current year
7 deferrals and the Customer Deposit Rate plus 2% on carryover balances from one year to the
8 next. This interest rate methodology was approved by Order No. 29323 in Case No. AVU-E-03-
9 04 dated August 21, 2003.

10 **Q. What surcharge rate is the Company proposing to be effective October 1,**
11 **2007?**

12 A. The Company is proposing a uniform cents per kilowatt-hour PCA surcharge of
13 0.267¢ to be effective October 1, 2007. Page 3 of Exhibit No. ___ (RLM-1) is a copy of the
14 proposed tariff, Schedule 66, which contains the proposed PCA surcharge rate. Page 2 of Exhibit
15 No. ___ (RLM-1) shows the calculation of the proposed surcharge. The proposed surcharge is
16 designed to recover the deferral balance at June 30, 2007, less forecasted amortization associated
17 with the existing surcharge that is effective through September 30, 2007, plus an estimate of
18 interest during the recovery period. After applying the conversion factor related to commission
19 fees and uncollectibles, the resulting revenue requirement of approximately \$9.6 million is
20 divided by forecasted kilowatt-hours for the period October 1, 2007 through September 30, 2008,
21 to derive the proposed surcharge rate of 0.267¢ per kilowatt-hour.

22 **Q. What is impact of the proposed surcharge by rate schedule?**

1 A. Page 1 of Exhibit No. ___ (RLM-1) shows the impact of the proposed PCA
2 surcharge by rate schedule. The proposed surcharge is approximately \$9.6 million, which is
3 approximately \$4.6 million more than the existing surcharge of approximately \$5.0 million.
4 Column (j) shows the breakdown of the \$4.6 million by rate schedule and column (k) shows the
5 resulting percentage increases by rate schedule.

6 **Q. What will be the impact of the proposed surcharge on an average residential**
7 **customer?**

8 A. Under the Company's proposal, the surcharge rate for residential customers will
9 increase from 0.163¢ per kilowatt-hour to 0.267¢ per kilowatt-hour, or an increase of 0.104¢ per
10 kilowatt-hour. For an average residential customer using 1,000 kilowatt-hours per month, the
11 monthly increase will be \$1.04. Under present rates, a residential bill for 1,000 kilowatt-hours
12 amounts to \$69.38. With the proposed surcharge in place the monthly bill would be \$70.42, or
13 about 1.5% higher than the bill under present rates.

14 **Q. Is the Company continuing with its customer bill paying assistance programs?**

15 A. Yes. The Company has several programs available to assist customers with paying
16 their bills. Avista's comfort level billing program offers customers the option of averaging their
17 bills and paying the same monthly amount all year long in order to smooth out the seasonal highs
18 and lows. Under the C.A.R.E.S. (Customer Assistance Referral and Evaluation Service)
19 program, specially trained customer service representatives provide referrals to area agencies and
20 churches for customers with special needs for help with housing, utilities, medical assistance, etc.
21 LIHEAP (Low Income Heating Energy Assistance Program) is a Federal program aimed to help
22 low income customers pay their electric and gas bills. These funds are distributed through local
23 agencies. Project Share is a voluntary contribution option allowing customers to contribute

1 donations that are distributed through local community action agencies to customers in need.
2 Idaho customers who have children, elderly or infirm persons in the household may qualify for
3 the winter moratorium plan. From December 1 through February 28, customers are not required
4 to pay their bills in full and can defer payment or make partial payments. In addition, the Winter
5 Payment Plan provides for lower winter bill payments by allowing customers to make monthly
6 payments equal to one-half of the levelized bill amounts, with balance in full or a new payment
7 arrangement due by April 1st. The Company also works out payment arrangements with
8 customers having difficulty paying their bills.

9 In addition, the Company has convenience options that help those who need flexibility,
10 but are generally able to pay. APS, or automatic payment service (money is deducted from
11 checking account automatically each month), is one example. Other popular services include
12 debit and credit card service, check-by-phone or over the web, preferred due date (the customer
13 picks a more convenient date to pay than the one the Company states on the bill), and e-billing.

14 **Q. Does that conclude your prefiled direct testimony?**

15 **A. Yes it does.**

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ADJUSTMENT FILING OF AVISTA)	EXHIBIT NO. __ (RLM-1)
CORPORATION)	RONALD L. MCKENZIE

FOR AVISTA CORPORATION

AVISTA UTILITIES
PROPOSED INCREASE BY SERVICE SCHEDULE
IDAHO - ELECTRIC
BASED ON PROJECTED KWH LOADS FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2008

Line No.	Type of Service	Schedule Number	kWhs (000s)	Revenue at Existing		Existing Surcharge		Revenue from Existing		Proposed Surcharge		Revenue from Proposed		Revenue Increase	Percent Increase
				Base Rates (1)	Base Rates (1)	Existing Surcharge Rates	Existing Surcharge Rates	Existing Surcharge Rates	Existing Surcharge Rates	Proposed Surcharge Rates	Proposed Surcharge Rates	Proposed Surcharge Rates	Proposed Surcharge Rates		
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)
1	Residential	1	1,174,494	\$78,165,080	\$0.00163	\$1,914,425	\$0.00267	\$80,079,505	\$3,135,899	\$1,221,474	1.53%				
2	General Service	11 & 12	355,872	27,230,883	\$0.00190	676,157	\$0.00267	27,907,040	950,178	274,021	0.98%				
3	Large General Service	21 & 22	715,980	41,808,921	\$0.00145	1,038,171	\$0.00267	42,847,092	1,911,667	873,496	2.04%				
4	Extra Large General Service	25	341,792	14,151,878	\$0.00103	352,046	\$0.00267	14,503,924	912,585	560,539	3.86%				
5	Extra Large General Service	25P	935,694	35,337,547	\$0.00093	870,195	\$0.00267	36,207,742	2,498,303	1,628,108	4.50%				
6	Pumping Service	31 & 32	57,383	3,555,645	\$0.00151	86,648	\$0.00267	3,642,293	153,213	66,564	1.83%				
7	Street & Area Lights	41-49	13,679	2,375,456	2.448%	58,151	\$0.00267	2,433,607	36,523	-21,628	-0.89%				
8	Total		3,594,894	\$202,625,410		\$4,995,794		\$207,621,204	\$9,598,367	\$4,602,573	2.22%				

(1) Excludes all adder rate adjustments: Schedule 59 - Residential and Farm Energy Rate Adjustment, Schedule 66 - Temporary Power Cost Adjustment, and Schedule 91 - Energy Efficiency Rider Adjustment.

Avista Corporation
Proposed PCA Surcharge Rate
Effective October 1, 2007

<u>Line No.</u>		
1	Unrecovered deferral balance at 6/30/07	\$10,573,518
2	Forecast of amortization related to existing surcharge to expire 9/30/07	<u>-1,341,810</u>
3	Net unrecovered balance to derive surcharge rate effective 10/1/07	9,231,708
4	Forecast of interest during recovery period (7% on 1/2 of balance)	<u>323,110</u>
5	Forecasted deferral balance to recover including interest	\$9,554,818
6	Conversion factor	<u>0.994259</u>
7	Revenue requirement	\$9,609,989
8	Forecast kWhs	<u>3,594,894,412</u>
9	Proposed Surcharge Rate	<u><u>\$0.00267</u></u>

AVISTA CORPORATION
d/b/a Avista Utilities

SCHEDULE 66

TEMPORARY POWER COST ADJUSTMENT - IDAHO

APPLICABLE:

To Customers in the State of Idaho where the Company has electric service available. This Power Cost Adjustment shall be applicable to all retail customers for charges for electric energy sold and to the flat rate charges for Company-owned or Customer-owned Street Lighting and Area Lighting Service. This Rate Adjustment is designed to recover or rebate a portion of the difference between actual and allowed net power supply costs.

MONTHLY RATE:

The energy charges of electric Schedules 1, 11, 12, 21, 22, 25, 25P, 31, and 32 are to be increased by 0.267¢ per kilowatt-hour in all blocks of these rate schedules.

Flat rate charges for Company-owned or Customer-owned Street Lighting and Area Lighting Service, Schedules 41-49, are to be increased by 0.267¢ per kilowatt-hour times the monthly usages of the various light sizes and types on these schedules.

SPECIAL TERMS AND CONDITIONS:

The rates set forth under this Schedule are subject to periodic review and adjustment by the IPUC based on the actual balance of deferred power costs.

Service under this schedule is subject to the Rules and Regulations contained in this tariff.

The above Rate is subject to increases as set forth in Tax Adjustment Schedule 58.

Issued July 30, 2007

Effective October 1, 2007

Exhibit No. ___ (RLM-1)
Case No. AVU-E-07-___
Avista
Page 3 of 3

Issued by Avista Utilities
By

Kelly O. Norwood – Vice President, State & Federal Regulation