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IDAHO PUBLIC  
UTILITIES COMMISSION

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

IN THE MATTER OF THE POWER COST )  
ADJUSTMENT (PCA) ANNUAL RATE )  
ADJUSTMENT FILING OF AVISTA )  
CORPORATION )

CASE NO. AVU-E-09-07

DIRECT TESTIMONY OF  
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, 2009. My testimony also explains why no change in the surcharge rate is being proposed.

18           **Q. Would you please explain the order that was issued regarding Avista's existing  
19 PCA methodology?**

20           A. Yes. On June 29, 2007 the Commission issued Order No. 30361 in Case No. AVU-  
21 E-07-01. That case dealt with the review of the PCA methodology and method of recovery. The  
22 Commission approved a change in the PCA methodology from a trigger and cap mechanism to a

1 single annual PCA rate adjustment filing requirement. The Commission approved the following  
2 procedural schedule for administering the annual PCA filings:

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

6 The Commission also approved a change in the method of PCA deferral recovery from a uniform  
7 percentage basis to a uniform cents per kilowatt-hour basis effective with the October 1, 2007  
8 rate change.

9 **Q. How many annual reports and associated rate changes have occurred since**  
10 **Order No. 30361 was issued?**

11 A. There have been two annual report filings since Order No. 30361 was issued. The  
12 associated rate changes occurred on October 1, 2007, and October 1, 2008.

13 **Q. Would you please explain the filing and order associated with the October 1,**  
14 **2007 PCA rate change?**

15 A. Yes. On July 31, 2007 Avista filed its PCA report for the period July 1, 2006  
16 through June 30, 2007 and requested a surcharge of 0.267¢ per kilowatt-hour effective October 1,  
17 2007. On September 14, 2007 the Commission issued Order No. 30429 in Case No. AVU-E-07-  
18 07 approving the PCA surcharge of 0.267¢ per kilowatt-hour from October 1, 2007 through  
19 September 30, 2008.

20 **Q. Would you please explain the filing and order associated with the October 1,**  
21 **2008 PCA rate change?**

22 A. Yes. On July 28, 2008 Avista filed its PCA report for the period July 1, 2007  
23 through June 30, 2008 and requested a surcharge of 0.610¢ per kilowatt-hour effective October 1,

1 2008. On September 30, 2008 the Commission issued Order No. 30645 in Case No. AVU-E-08-  
2 05 approving the PCA surcharge of 0.610¢ per kilowatt-hour from October 1, 2008 through  
3 September 30, 2009.

4 **Q. What period does the present filing cover?**

5 A. The present filing consists of the PCA report for the period July 1, 2008 through  
6 June 30, 2009.

7 **Q. In the present filing is the Company proposing an adjustment to the PCA**  
8 **surcharge rate?**

9 A. No. Under normal circumstances the Company would be proposing a PCA rate  
10 adjustment based on deferrals for the period July 1, 2008 through June 30, 2009. In this instance  
11 no rate adjustment is being proposed due to the Stipulation and Settlement approved by Order  
12 No. 30856 dated July 17, 2009 in the Company's electric and gas general rate cases, Case Nos.  
13 AVU-E-09-01 and AVU-G-09-01. As part of the Settlement (Item 15(f) on page 12) the parties  
14 agreed to reduce the PCA surcharge rate effective August 1, 2009. The PCA surcharge rate of  
15 0.610¢ per kilowatt-hour that was effective October 1, 2008, will be reduced to 0.344¢ per  
16 kilowatt-hour effective August 1, 2009.

17 The August 1, 2009 PCA surcharge rate of 0.344¢ per kilowatt-hour is expected to  
18 remain in place until October 1, 2010, when it will be replaced by a new rate that will be  
19 proposed as part of the Company's annual PCA report for the period July 1, 2009 through June  
20 30, 2010.

21 **Q. Would you please show the beginning balances, account activity, and ending**  
22 **balances in the deferral accounts?**

1           A. Yes. The Company keeps track of each deferral period in a separate account. The  
2 accounts and associated amounts are shown below:

3	<u>Account 182385 ED ID (7/06-6/07 Deferrals)</u>	
4	Balance at June 30, 2008	\$2,854,904
5	Amortization	-2,503,036
6	Interest	31,357
7	Transfer to Account 182387 ED ID	<u>-383,225</u>
8	Balance at June 30, 2009	<u>\$ 0</u>

9	<u>Account 182386 ED ID (7/07-6/08 Deferrals)</u>	
10	Balance at June 30, 2008	\$20,966,915
11	Amortization	-15,141,573
12	Interest	<u>625,937</u>
13	Balance at June 30, 2009	<u>\$ 6,451,279</u>

14	<u>Account 182387 ED ID (7/08-6/09 Deferrals)</u>	
15	Balance at June 30, 2008	\$ 0
16	Deferrals	10,761,381
17	Transfer from Account 182385 ED ID	383,225
18	Interest	<u>77,175</u>
19	Balance at June 30, 2009	<u>\$11,221,781</u>

20 The deferrals shown above in Account 182387 ED ID of \$10,761,381 for the period July 1, 2008  
21 through June 30, 2009 are the costs to be reviewed in this filing for recovery from customers.  
22 Mr. Johnson discusses the components that make up these deferred costs. The transfer amount  
23 from Account 182385 ED ID to Account 182387 ED ID of \$383,225 represents the under-  
24 recovered amount related to the surcharge that was made effective October 1, 2007. Interest in  
25 each account during the twelve-month period was calculated using the Customer Deposit Rate  
26 (July-December 2008 at 5%, and January-June 2009 at 2%).

27           **Q. How will amortization be recorded related to the October 1, 2008 and the**  
28 **August 1, 2009 PCA surcharge rates?**

29           A. Amortization will first be applied to Account 182386 ED ID until that account  
30 reaches zero, and then applied to Account 182387 ED ID.

1 Q. Does that conclude your prefiled direct testimony?

2 A. Yes it does.