

DECISION MEMORANDUM

TO: COMMISSIONER KEMPTON
COMMISSIONER SMITH
COMMISSIONER REDFORD
COMMISSION SECRETARY
LEGAL
WORKING FILE

FROM: KATHY STOCKTON
KEITH HESSING

DATE: SEPTEMBER 11, 2009

RE: AVISTA UTILITIES PCA; CASE NO. AVU-E-09-07

BACKGROUND

On July 30, 2009, Avista Corporation dba Avista Utilities (Avista; Company) filed an Application with the Idaho Public Utilities Commission (Commission) for an order approving recovery of power costs deferred for the period July 1, 2008 through June 30, 2009. The current PCA rate was established by the Commission in Case No. AVU-E-09-01 by Order No. 30856 and put in place August 1, 2009. The Company is proposing that PCA rates not be adjusted again in this proceeding.

Avista's PCA mechanism is used to track variations from normal power supply costs. Some of these variations are: changes from normal revenues and costs associated with variations in electric generation, market prices, thermal fuel costs, and changes in power contract revenues and expenses. The Company's existing PCA methodology was approved in 2007 in Case No. AVU-E-07-01 (Order No. 30361). In that case, the Commission approved a change in the PCA methodology from a trigger and cap mechanism to a single annual PCA filing requirement. The Commission also approved a change in the method of PCA deferral recovery moving from a uniform percentage increase in rates to a uniform cents per kWh rate.

The principal factor contributing to the power supply expense above the level included in base rates during the deferral period is increased natural gas fuel costs. Company witness William Johnson lists factors contributing to increased power supply expense in a table on page 3 of his testimony.

STAFF REVIEW

Audit Results

The Commission Staff (Staff) has performed a review and audit of the amounts that went into the deferral balance in the current filing. Staff's review covered expenses incurred for the period July 2008 through June 2009. Staff examined a representative cross section of transactions included in the Purchased Power account (FERC 555), Thermal Fuel account (FERC 501), Combustion Turbine Fuel account (FERC 547), Resource Optimization (557), and Power Sales account (FERC 447). Based on our review of these transactions, Staff concludes that the accounting transactions appear reasonable at the time they were made. Staff also reviewed the other PCA calculations and amounts. Staff finds the amounts recorded to be correct and recommends that they be included in the deferral balance as of June 30, 2009.

Lehman Brothers Bankruptcy

Lehman Brothers Holdings, Inc. (LBH) filed for Chapter 11 Bankruptcy on September 15, 2008. LBH is the parent entity of Lehman Brothers Commodity Services, Inc. (LBCS), and Avista Corporation was transacting with LBCS under the Western Systems Power Pool (WSPP) Agreement. In September 2008, Avista recorded a \$2,705,100 reserve, on a system basis, for a write-off of the net amounts owed to Avista for power delivered to LBCS in August, and the first part of September 2008. The write-off was charged to Account 557.160 - Other Resource Costs. Idaho's share of the \$2.7 million expense associated with the write-off is a reasonable cost for recovery in the Avista's PCA. Avista sold its Lehman Brothers bankruptcy claim to Silver Point Capital. Proceeds from the sale amounted to \$438,828 with the proceeds being received in late March 2009 and will help offset the write-off. Avista incurred legal fees associated with the bankruptcy claim and sale. The estimate for total legal fees is between \$30,000 and \$40,000.

This bankruptcy, while impacting Idaho customers, is small relative to overall power supply costs. During the PCA period from July 2008 through June 2009, Sales for Resale totaled \$225,254,653 on a system level. The Lehman Brothers Bankruptcy cost to customer, net of the sale of the bankruptcy claim to Silver Point Capital, of \$2,299,439 is 1.02% of the total Sales for Resale. Of this amount, \$814,231 is the cost for Idaho customers in the PCA calculation. Staff believes the resolution of this matter to be reasonable.

Deferral Balance

The Company is requesting that the Commission approve recovery of \$10,761,381. This Deferral Balance includes the net deferral activity for the period of July 1, 2008 through June 30, 2009. The Company has previous approval to recover interest and to true up amounts previously approved that have been over or under recovered. These amounts are listed below.

• Net Deferral Activity (July 2008 - June 2009)	10,761,381
• Interest	77,175
• True Up	<u>383,225</u>
• Unrecovered Balance at June 30, 2009	<u>\$11,221,781</u>

Net Deferral Activity

The net deferral activity represents the Idaho jurisdictional share of the excess power costs and associated revenue adjustments deferred under the PCA mechanism by Avista for the twelve months ended June 30, 2009. The main component of the net deferral is the Net Increase in Power Supply Costs, FERC Accounts 555, 501, 547, and 447. Along with the costs of serving load using Company owned resources, these PCA accounts also include additional power purchase costs when market prices are lower than generation costs. Also, generation costs associated with off-system sales are offset by the revenue from those sales. The total net Idaho jurisdictional increase in power supply cost is \$10,761,381.

The PCA Rate

As indicated by the Company in its filing a PCA rate reduction was approved in the Company's most recent general rate case, Case No. AVU-E-09-01, Order No. 30856. The current PCA rate, 0.344 ¢/kWh, became effective August 1, 2009. Avista proposes that the current rate stay in place. Avista expects that the rate will be in place until the next annual review for October 1, 2010. Staff calculates that the current PCA rate that was effective August 1, 2009 will generate approximately \$14.0 million dollars in the 14-month period ending October 1, 2010. Revenue from the current rate should amortize the June 30, 2009 deferral balance of approximately \$11.2 million and leave \$2.8 million to offset the amortization shortfall that will occur in August and September of this year due to the early decrease in the PCA rate. That under recovery is estimated to be approximately \$2.6 million. If these estimates are

accurate, the current rate over recovers the identified costs by the relatively small amount of \$0.2 million. Any over recovery would be returned to customers as part of a true up in a future rate proceeding after actual amounts are known. Staff believes that the current rate is appropriate to continue until rates are again reviewed for change on October 1, 2010.

STAFF RECOMMENDATION

Staff recommends that the Commission accept the audited deferral balance of \$10,761,381 for the period July 1, 2008 through June 30, 2009 and approve the amount for recovery. Staff further supports the Company in its recommendation to continue the current PCA rate.

COMMISSION DECISION

Does the Commission approve the June 30, 2009 PCA deferral balance of \$10,761,381 for recovery from Idaho customers?

Does the Commission approve the continuation of the current PCA rate?


Kathy Stockton


Keith Hessing

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