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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-10-03
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
10 September 1974. I obtained a Master of Business Administration Degree from Eastern
11 Washington University in 1989. I have attended several utility accounting and ratemaking
12 courses and workshops. I have held various accounting positions within the Company. I have
13 served in the State and Federal Regulation Department for the majority of my career with the
14 Company.

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

16 A. My testimony provides a status report of the accounting entries and account
17 balances related to the Idaho Power Cost Adjustment (PCA) for the twelve months ended June
18 30, 2010. My testimony also addresses the proposed surcharge to be effective October 1, 2010,
19 which will replace the existing surcharge.

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

21 A. Yes. I am sponsoring Exhibit No. ____ (RLM-1), consisting of a sheet showing the
22 impact of the proposed PCA surcharge by rate schedule, a sheet showing the calculation of the

1 proposed uniform cents per kilowatt-hour PCA surcharge of 0.532¢, and the proposed PCA
2 tariff, Schedule 66.

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

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

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

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

16 **Q. Would you please explain the filings and orders associated with the existing**
17 **PCA rate?**

18 A. Yes. On July 28, 2008 Avista filed its PCA report for the period July 1, 2007
19 through June 30, 2008 and requested a surcharge of 0.610¢ per kilowatt-hour effective October
20 1, 2008. On September 30, 2008 the Commission issued Order No. 30645 in Case No. AVU-E-
21 08-05, approving the PCA surcharge of 0.610¢ per kilowatt-hour effective October 1, 2008.

1 The PCA surcharge was then reduced to 0.344¢ per kilowatt-hour effective August 1,
2 2009, to partially mitigate the general rate increase that was approved by Order No. 30856 in
3 Case No. AVU-E-09-01, dated July 17, 2009.

4 On July 30, 2009 Avista filed its annual PCA report for the period of July 1, 2008
5 through June 30, 2009 and requested that the PCA rate established by Order No. 30856 remain in
6 effect until the Company's next annual PCA filing establishes a new rate to be effective on
7 October 1, 2010. The Commission approved that proposal in Case No. AVU-E-09-07, by Order
8 No. 30919, dated October 7, 2009.

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

10 A. Yes. The proposed PCA rate adjustment is based on deferrals for the period July 1,
11 2009 through June 30, 2010, as well as the unrecovered balance related to the July 1, 2008
12 through June 30, 2009 deferral period. The proposed PCA surcharge rate is a uniform cents per
13 kilowatt-hour rate of 0.532¢ to be effective October 1, 2010.

14 **Q. What were the amounts of deferrals and interest for the period July 1, 2009**
15 **through June 30, 2010?**

16 A. The amounts are shown below:

17 Deferrals (July 2009 - June 2010)	\$16,613,904
18 Centralia refund	<u>-189,607</u>
19 Subtotal	16,424,297
20 Interest	<u>121,794</u>
21 Balance at June 30, 2010	<u>\$16,546,091</u>

22 Mr. Johnson discusses the components that make up the deferrals shown above. The
23 Centralia refund amount relates to a refund of unexpended Centralia environmental remediation
24 funds. Avista sold its ownership share of the Centralia power plant to TransAlta in May 2000.
25 Funds were withheld from the proceeds of the sale of the Centralia plant to pay for potential

1 environmental remediation. The held back funds reduced the gain on the original sale of the
2 Centralia plant. No further material actions are expected for the potential environmental
3 remediation, and all funds withheld have been returned to Avista.

4 In June 2010 a journal entry was made to record the Idaho ratepayer portion of the
5 refund to the PCA deferral account. The monthly PCA report for June 2010 included a copy of
6 the journal, and a copy of the spreadsheet that shows the allocation of the refund between the
7 Washington and Idaho jurisdictions, as well as the allocation between the shareholder and
8 ratepayer portion of the refund. The same allocations used in the allocation of the original
9 Centralia plant gain were used in allocating the refund for the funds that were held back for
10 potential environmental remediation.

11 The \$121,794 interest amount represents interest for the twelve-month period July
12 1, 2009 through June 30, 2010. Interest for the twelve-month period was calculated using the
13 Customer Deposit Rate (July-December 2009 at 2%, and January-June 2010 at 1%).

14 **Q. What surcharge rate is the Company proposing to be effective October 1,**
15 **2010?**

16 A. The Company is proposing a uniform cents per kilowatt-hour PCA surcharge of
17 0.532¢ to be effective October 1, 2010. Page 3 of Exhibit No. ____ (RLM-1) is a copy of the
18 proposed tariff, Schedule 66, which contains the proposed PCA surcharge rate. Page 2 of
19 Exhibit No. ____ (RLM-1) shows the calculation of the proposed surcharge. The proposed
20 surcharge is designed to recover deferrals and interest for the July 1, 2009 through June 30, 2010
21 period, as well as the unrecovered balance related to the July 1, 2008 through June 30, 2009
22 deferral period, plus an estimate of interest during the recovery period. After applying the
23 conversion factor related to commission fees and uncollectibles, the resulting revenue

1 requirement of approximately \$18.7 million is divided by forecasted kilowatt-hours for the
2 period October 1, 2010 through September 30, 2011, to derive the proposed surcharge rate of
3 0.532¢ per kilowatt-hour.

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

5 A. Page 1 of Exhibit No. ___ (RLM-1) shows the effect of the proposed PCA
6 surcharge by rate schedule. The proposed surcharge is 0.532¢ per kilowatt-hour, which is 0.188¢
7 per kilowatt-hour more than the existing surcharge of 0.344¢ per kilowatt-hour. Column (f)
8 shows the percentage increases by rate schedule. The overall increase is 2.61%.

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

11 A. Under the Company's proposal, the surcharge rate for all customers, including
12 residential customers will increase from 0.344¢ per kilowatt-hour to 0.532¢ per kilowatt-hour, or
13 an increase of 0.188¢ per kilowatt-hour. For an average residential customer using 1,000
14 kilowatt-hours per month, the monthly increase will be \$1.88. Under present rates, a residential
15 bill for 1,000 kilowatt-hours amounts to \$80.90. With the proposed surcharge in place the
16 monthly bill would be \$82.78, or about 2.3% higher than the bill under present rates.

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

18 A. Yes. The Company has several programs available to assist customers with paying
19 their bills. Avista's Comfort Level Billing program offers the option for customers to pay the
20 same bill amount each month of the year by averaging their annual usage. Under this program,
21 customers can avoid unpredictable winter heating bills. The CARES (Customer Assistance
22 Referral and Evaluation Services) program provides assistance to special-needs customers
23 through access to specifically trained CARES representatives who provide referrals to area

1 agencies and churches for help with housing, utilities, medical assistance, etc. LIHEAP (Low
2 Income Heating Energy Assistance Program) is a Federal program aimed to help low income
3 customers pay their electric and gas bills. These funds are distributed through local agencies.
4 Project Share is a voluntary contribution option allowing customers to contribute donations that
5 are distributed through local community action agencies to customers in need. Idaho customers
6 who have children, elderly or infirm persons in the household may qualify for the Winter
7 Moratorium plan. From December 1 through February 28, customers are not required to pay
8 their bills in full and can defer payment or make partial payments. In addition, the Winter
9 Payment Plan provides for lower winter bill payments by allowing customers to make monthly
10 payments equal to one-half of the levelized bill amounts, with balance in full or a new payment
11 arrangement due by April 1st. The Company also works out payment arrangements with
12 customers having difficulty paying their bills.

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

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

19 **A. Yes it does.**

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EXHIBIT NO. __ (RLM-1)
RONALD L. MCKENZIE

FOR AVISTA CORPORATION

AVISTA UTILITIES
IDAHO ELECTRIC
IMPACT OF PROPOSED SCHEDULE 66 PCA INCREASE
12 MONTHS ENDED DECEMBER 31, 2009

(000s of Dollars)
(000s of kWh)

Line No.	Type of Service (a)	Schedule Number (b)	2009 Pro Forma Kilowatt-hours (c)	Total Billed Revenue at Present Rates(1) (d)	Proposed Sch. 66 Increase (e)	Percent Increase on Billed Revenue (f)
1	Residential	1	1,152,198	\$94,102	\$2,166	2.30%
2	General Service	11,12	317,877	31,255	598	1.91%
3	Large General Service	21,22	715,623	54,639	1,345	2.46%
4	Extra Large General Service	25	258,715	13,774	486	3.53%
5	Clearwater	25P	892,291	43,827	1,678	3.83%
6	Pumping Service	31,32	58,956	4,729	111	2.34%
7	Street & Area Lights	41-49	13,816	3,208	26	0.81%
8	Total		<u>3,409,476</u>	<u>\$245,534</u>	<u>\$6,410</u>	2.61%
9	Proposed surcharge rate		\$0.00532			
10	Existing surcharge rate		0.00344			
11	Increase in surcharge rate		<u>\$0.00188</u>			

(1) Includes all present rate adjustments: Schedule 66-Temporary PCA Adj., Schedule 91-Energy Efficiency Rider Adj., and Schedule 59-Residential & Farm Energy Rate Adj.

Source: Pat Ehrbar's Exhibit No. 14, Schedule 3, page 1 of 3 in Case No. AVU-E-10-01.

Avista Corporation
Idaho PCA
Proposed Rate Adjustment
Effective October 1, 2010

<u>Account 182387.ED.ID 7/08-6/09 Deferrals</u>	
Actual balance at 6/30/10	\$5,195,389
Forecasted interest	14,315
Forecasted amortization	<u>-3,253,000</u>
Forecasted unrecovered balance at 11/30/10*	1,956,704
<u>Account 182385.ED.ID 7/09-6/10 Deferrals</u>	
Actual balance at 6/30/10	16,546,091
Forecasted interest	<u>41,061</u>
Forecasted balance at 9/30/10	<u>16,587,152</u>
Amount to recover	18,543,856
Interest - 12 months @ 1% on 50% of balance	<u>92,719</u>
Total amount including interest	18,636,575
Conversion factor	<u>0.994965</u>
Revenue requirement	\$18,730,885
Projected kWh 10/1/10 - 9/30/11	<u>3,522,531,000</u>
Proposed surcharge rate	\$0.00532
Existing surcharge rate	<u>0.00344</u>
Increase in surcharge rate	\$0.00188

*Includes forecasted amortization related to September 2010 usage to be billed in October and November 2010.

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 0.532¢ 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 0.532¢ 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 26, 2010

Effective October 1, 2010

Exhibit No. (RLM-1)
Case No. AVU-E-10-23
Avista
Page 3 of 3

Issued by Avista Utilities
By

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