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Attorneys for Clearwater Paper Corporation

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IDAHO PUBLIC
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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 COMMENTS AND PROTEST OF CLEARWATER PAPER CORPORATION

Pursuant to Rule 203 of the Rules of Procedure of the Idaho Public Utilities Commission (the "Commission") and the Commission's Notice of Modified Procedure served August 4, 2010, the Clearwater Paper Corporation ("Clearwater") respectfully submits the following comments on and protest to Avista's request for a 2010 power cost adjustment ("PCA"). For the reasons explained below, Clearwater respectfully requests that the Commission deny the Company's recovery of a "Retail Revenue Credit," which Clearwater calculates to be a charge of $9.3 million, or at a minimum allow the Company to only collect the revenue subject to rebate until the completion of Case No. GNR-E-10-03. Clearwater Paper additionally protests Avista's rate spread methodology, which spreads PCA revenue on a uniform cents per kilowatt hour (kWh) basis despite the existence of substantial fixed costs in this 2010 PCA filing, and respectfully requests that the Commission require Avista to spread the 2010 PCA among customer classes on a uniform percentage of revenue basis per customer class, or at a minimum isolate the fixed costs to be spread in that manner separately from the remaining PCA revenue.

I

BACKGROUND

A. The PCA Mechanism

Avista uses its PCA is to recover or refund 90% of variations in revenues and costs recovered through base rates for hydroelectric generation, secondary prices, thermal fuel costs, and changes in power contract revenues and expenses. *See* Order No. 30361, at p. 1. The Commission recently authorized two changes to Avista's prior PCA mechanism – (1) that Avista file a single, annual PCA rate adjustment rather than a "trigger and cap" mechanism based on the level of the deferral balance, and (2) that Avista allocate PCA deferral recovery on a uniform cents per kilowatt hour (kWh) basis rather than the prior uniform percentage of revenue basis per customer class. *Id.* at p. 6. The basis for utilizing the cents per kwh rate spread in that case was that "fixed costs of power supply are not captured in the PCA," and according to Staff, therefore, "it is more appropriate to recover variable power supply costs with an equal cents per kwh charge that applies to all energy use." Direct Testimony of Keith Hessing, Commission Staff, Case Nos. AVU-E-04-1 and AVU-G-04-1, at p. 23 (June 21, 2004); *see also* Order No. 29602, at p. 48 (adopting Staff's reasoning); Order No. 30361, at p. 6 (implementing the equal cents per kwh methodology in the 2007 PCA filing).

In its most recently authorized form, therefore, the mechanism recovers power costs deferred by the Company for the PCA's deferral period of July 1 of the year preceding the filing through June 30 of the year of the filing, as well as the unrecovered balance related to the prior

PCA's deferral period, and interest during the recovery period of October 1 of the year of the filing through September 30 of the year after the filing.

B. Avista's 2010 PCA Filing

Avista proposes a 0.532 cents per kWh PCA surcharge to replace an existing 0.344 cents per kWh surcharge, for an increase of 0.188 cents per kWh (or 2.61% overall). *Application*, at p. 4. Avista requests a total recovery of approximately $16.5 million for increased costs for the June 2009 to July 2010 deferral period, as well as interest and unrecovered balance from the prior deferral period, which ultimately totals $18,730,885 of PCA revenue requirement. Direct Testimony of Ronald L. McKenzie, Exhibit 1, p. 2. Under the equal cents per kWh rate spread, this results in a 3.83% rate increase for Clearwater, but only an overall average increase of 2.61%. *Id.* at p. 1.

According to Avista, the primary factors contributing to the increased power supply expenses in excess of $16 million during this PCA deferral period are low hydro generation and costs associated with the fixed costs of the Lancaster gas plant. Direct Testimony of William G. Johnson, at p. 3. Avista states that low hydro conditions increased costs by over $12 million, and costs associated with the Lancaster gas plant totaled $4.4 million, which included $6 million in fixed costs and a $1.6 million offset of operating margin. *Id.*

But Avista's filing also itemizes a $2.9 million increase in costs from to "Changes in Retail Loads," which is attributable to the effect of the Company's load growth adjustment mechanism – the Retail Revenue Credit Rate – during this period of a load decline of 6.1%. *See id.* at pp. 3, 4; Avista's Response to Clearwater's Production Request Nos. 1-3.[1] And closer

[1] Clearwater has attached, as Attachment 1 to these comments and protest, Avista's Responses to Clearwater's Production Request Nos. 1-3, and 6.

scrutiny reveals that recovery for declining retail loads is the predominant component of the increased power supply cost Avista requests from the Commission in this case. Indeed, Clearwater's analysis of Avista's work papers (in which analysis Clearwater understands Staff concurs) reveals that Avista's adjustment for load growth through the Retail Revenue Credit Rate is actually $10,330,030, which results in a $9,297,028 charge to ratepayers after 90/10 sharing. *See* McKenzie Work Papers, at p. 3.

II

COMMENTS AND PROTEST

A. The Commission should disallow recovery for Avista's load growth adjustment mechanism – the Retail Revenue Credit Rate – which acts as a large and unauthorized decoupling mechanism in this deferral period with declining loads.

As noted above, Avista's filing and discovery responses assert that it requests recovery of $2.9 million through the Retail Revenue Credit Rate, apparently for power supply costs which have somehow increased as a result of a 6.1% decrease in loads, but closer scrutiny reveals Avista's filing includes approximately $10.3 million of an increase in PCA revenue attributable to declining loads. This amounts to 57% of the total request of $16.4 million for the deferral period and is calculated by the Company by multiplying the *decrease* in consumption by Idaho customers of 238,955 MWh by Avista's average cost of production and transmission of $43.23 per MWh.

Specifically, Avista witness William Johnson presents a table disaggregating the component parts of Company's request for $16.4 million, which includes an item listed "Change in Retail Loads" in the amount of $2.9 million. Direct Testimony of William Johnson at p. 3. and Avista asserted in response to discovery requests that this amount is indeed the figure that accounts for the Company's Retail Revenue Credit. *See* Avista's Response to Clearwater

Production Request No. 2. But this $3 million is the result of netting the "Retail Revenue Credit" of approximately $10.3 million against the *change in overall power supply costs* over the PCA year – an amount of approximately $7 million which Avista recovers in other parts of this PCA filing set forth in the table in Mr. Johnson's testimony. In other words, Avista's presentation of $2.9 million as "Change in Retail Loads" is actually the Retail Revenue Rate calculation reduced by a figure for which Avista is actually recovering elsewhere in this PCA case. The actual amount being requested through the Retail Revenue Credit Rate is $10.3 million. Clearwater understands that Staff agrees with this conclusion. Thus, Clearwater's expert, Dr. Don Reading, has concluded that the $3 million item listed in witness Johnson's direct testimony does not represent and is different from the load growth adjustment mechanisms for the two other investor-owned utilities in Idaho -- PacifiCorp and Idaho Power.

The Commission first implemented a load growth adjustment mechanism in Idaho for Idaho Power to prevent double-recovering certain costs under Idaho Power's PCA. *See* Order No. 24806, at p. 20. Although new loads add to a utility's power supply costs over and above those established through rate case normalization procedures, these new loads pay rates for the power they receive. Allowing a utility to automatically recover in the PCA the full costs of serving new load would therefore result in an over-recovery by the Company.

Avista's version of a load growth adjustment mechanism works in a similar fashion – "In a load growth situation, application of the Revenue Retail Credit Rate removes the cost of load growth on the margin from abnormal power supply costs before the PCA rate is calculated and, therefore, denies recovery of load growth related power supply costs incurred at the margin." Direct Testimony of Keith Hessing, Case Nos. AVU-E-09-1 and AVU-G-09-1, at p. 7. "The Company receives these revenues that are embedded in rates when it sells an additional load growth kwh and, therefore, should not be allowed to recover them a second time in the PCA." *Id.*

Implementing the load growth adjustment mechanism in the face of declining loads, however, can lead to over-recovery by a utility because it "appears to operate much the same as a decoupling mechanism reimbursing the Company for lost revenue for reductions in customer usage (sales)." Order No. 31033, at p. 12 (PacifiCorp's 2010 PCA, Case No. PAC-E-10-01). "For the [load growth adjustment mechanism] to act as a decoupling mechanism was unintended." *Id.* The Commission stated, "If the Company desires a decoupling mechanism it should request and justify one in a separate filing." *Id.*

The problem is further complicated in this case because Avista's PCA – unlike those of Idaho Power and PacifiCorp – includes transmission costs on top of regular energy production costs. According to Avista, "The retail revenue credit is based on the average cost of production and transmission. All production and transmission costs, including return on rate base are included." *See* Avista's Response to Clearwater Production Request No. 3(b). Avista's recovery should therefore have a greater proportional impact on ratepayers than Idaho Power's or PacifiCorp's under their load growth mechanisms, which only recover costs associated with energy production.

Avista believes that "[t]he retail revenue credit is designed and authorized to operate when retail loads are higher or lower than authorized retail loads." Avista's Response to Clearwater Production Request No. 3(c). But in response to the request for citation to a Commission order authorizing Avista to obtain such recovery through the Retail Revenue Credit in times of declining loads, Avista merely cites to the Commission's order authorizing use of the mechanism in the 2009 general rate case – a case that dealt with a recovery period during which loads were *increasing*. Avista's Response to Clearwater Production Request No. 3(d) (citing Commission Order No. 30856). No prior order expressly authorizes such use of the Retail Revenue Credit Rate in times of declining loads, and Avista must therefore demonstrate in this case that recovery through its load growth adjustment mechanism is appropriate during this deferral period of declining loads resulting from the most serious economic downturn since the Great Depression. But Avista has failed to do so in this filing, thereby miscalculating the extent of recovery.

In response to Clearwater's request for explanation as to why ratepayers should compensate Avista for loss of loads through the PCA, Avista concisely explained how the mechanism works appropriately in a load growth situation, but with regard to a deferral period with declining loads Avista confusingly stated:

> The average production cost also works equally well when actual sales are lower than the authorized sales. In that case, actual power supply expense is lower because loads are less than the authorized level. The retail revenue credit adjusts for the increased wholesale revenue the Company received and that is credited to customers in the PCA. *To not include a retail revenue credit when loads are less than the authorized level would equate to customers receiving all the value of increased wholesale revenues without having to pay for any of the expense of generating the energy that is sold.*
>
> Avista's Response to Clearwater Production Request No. 1(e).

What Avista has not explained is why ratepayers need to compensate it for the cost of generating electricity that Avista sells at a market rate that should compensate it for the costs of generation. The only rational conclusion from Avista's response – if there is a rational conclusion – is that Avista sold excess electricity it generated on the open market for approximately $10 million less than it cost Avista to generate the excess electricity. If so, the Commission should disallow such recovery as related to imprudent activity. Avista recovers through its rate base for all reasonably incurred fixed capital costs related to its own generation facilities, and to the extent that it now requests recovery for variable operating expenses incurred at times when it was operating at a loss, such recovery would be unreasonable.

In order for the Company's explanation to make sense, one would need to assume the net difference between wholesale revenues and costs would be exactly equal to the net revenue and costs from a decrease in retail loads. Avista essentially assumes that the production of power for the PCA year is a "zero sum game" where the net costs of power production are fixed and there is a split between retail customers and the wholesale market based on the decrease in retail loads. This is incorrect because, if Avista would lose money by operating its plants to sell on the open market at rates lower than the cost of generation, that activity would not be prudent and any loss associated with it should not be charged to ratepayers.

It is more likely, however, that Avista's explanation is meaningless, and the only accurate explanation is that Avista is requesting approximately $10 million in recovery through a mechanism with a decoupling effect. Avista tried to explain that its Retail Revenue Credit is different from decoupling, which minimizes "changes in <u>total</u> <u>retail</u> <u>revenues</u> due to changes in loads," because the Retail Revenue Credit "only accounts for changes in power production costs and revenues, and not changes in entire retail revenues." Avista's Response to Clearwater Production Request No. 3(a) (emphasis in original). Thus, Avista all but admitted that it seeks to implement a decoupling mechanism under which it will recover lost production expenses it would recover if not for the declining loads. Avista does not have an authorized decoupling mechanism, and it would be unjust for the Commission to allow it to covertly recover through decoupling in this case.

In Idaho Power's PCA, the Commission declined to disallow any amount of recovery for the load growth adjustment mechanism in that case because the Commission could not "determine an appropriate amount that should be removed from the PCA calculation because of the [load growth adjustment mechanism]." Order No. 31093, at p. 15. Here, however, the Commission can very easily determine that approximately $10.3 million is associated with a load growth adjustment recovery during a time of declining loads, and after the 90/10 sharing ratepayers would pay $9.3 million for an expense that was either imprudently incurred or altogether non-existent. Clearwater therefore recommends the Commission deny the $9.3 million recovery, or at the very least the Commission deem that amount subject to refund pending the resolution of load growth inquiry in GNR-E-10-03.

B. Because Avista's filing includes requests for substantial recovery for fixed costs typically recovered on a uniform percentage of revenue basis per customer class, the Commission should require Avista to allocate costs among customer classes in this PCA on a uniform percentage of revenue basis per customer class.

Avista requests recovery for substantial fixed costs in this PCA filing, including $4.4 million associated with fixed costs associated with its Lancaster gas plant, and substantial fixed costs associated with transmission expenses including rate of return recovered through the $9.3 million Retail Revenue Credit Rate, as discussed above. The basis for utilizing the cents per kwh rate spread in the last PCA case was that "fixed costs of power supply are not captured in the PCA," and according to Staff, therefore, "it is more appropriate to recover variable power supply costs with an equal cents per kWh charge that applies to all energy use." Direct Testimony of Keith Hessing, Commission Staff, Case Nos. AVU-E-04-1 and AVU-G-04-1, at p. 23; *see also* Order No. 29602, at p. 48 (adopting Staff's reasoning); Order No. 30361, at p. 6 (implementing the equal cents per kWh methodology in the 2007 PCA filing). But this PCA filing consists predominantly of fixed costs that are unlike the marginal energy costs that prompted the

Commission to move from allocating PCA costs on an equal percentage basis to a cents per kWh basis.

As discussed in detail below, if the Commission allows recovery of fixed cost expenses in this PCA, Clearwater respectfully requests that the Commission require Avista to allocate the PCA revenue on a uniform percentage of revenue basis per customer class, rather than on an equal cents per kWh basis. At a minimum, Avista should separate the fixed cost components of the PCA revenue requirement and allocate them on an equal percentage basis.

1. **The $4.4 million recovery for fixed costs associated with the Lancaster plant should not be allocated among customer classes on an equal cents per kWh basis because fixed costs are not variable energy costs and should be allocated similarly to other fixed costs.**

Avista requests recovery of $4.4 million associated with "*fixed costs* of the Lancaster gas plant." Direct Testimony of William G. Johnson, at p. 3 (emphasis added). It is unreasonable to allocate such costs on an equal cents per kWh basis because they are not variable energy costs tied to a customer class's level of energy use; they are fixed costs that should be spread similar to fixed costs in a general rate case.

The Lancaster gas plant is a 275 MW combined cycle combustion turbine plant located in Rathdrum, Idaho. *See* Direct Testimony of Randy Lobb, Commission Staff, Case Nos. AVU-09-1 and AVU-G-09-1, pp. 17-18 (May 29, 2009). Under the current tolling agreement effective January 1, 2010, "[t]he generating plant will be owned and operated by Rathdrum Energy LLC, but dispatched as specified by Avista Utilities. In return for the right to dispatch and utilize plant output, Avista *will pay a capacity charge* and will purchase and deliver natural gas to fuel the plant" *Id.* (emphasis added). Further, "Avista *will incur fixed costs* for gas pipeline capacity and transmission rights to Avista's system over BPA lines." *Id.* at p. 18 (emphasis added).

Thus, although the Company does not technically own the plant, ratepayers are paying fixed costs associated with the plant regardless of whether they buy energy from the plant or not. It is simply not a resource that imposes variable costs alone like typical PCA expenses.

In the 2009 rate case, Avista proposed, and Staff supported, including the impacts of the Lancaster tolling agreement in the PCA, with 100% recovery of *fixed* costs through the PCA and recovery of variable costs pursuant to the 90/10 sharing arrangement for typical PCA expenses. *See* Direct Testimony of Keith Hessing, Commission Staff, Case Nos. AVU-E-09-1 and AVU-G-09-1, at p. 9 (May 29, 2009). "Normally fixed costs would be included in base rates and would receive no PCA treatment." *Id.* This is so because "[t]here is usually little or no variability in fixed costs." *Id.* at pp. 9-10. Staff also recognized that "[t]he Lancaster treatment proposed by the Company . . . places unusual and substantial upward pressure on PCA deferral balances that will remain until fixed costs and normal levels of variable costs are moved to base rates in the Company's next general rate case." *Id.* at p. 10. Most recently, the pending settlement agreement in the 2010 general rate case (AVU-E-10-01) contains an agreement in paragraph 8 to place the Lancaster costs in base rates in that case.

Yet in this 2010 PCA case Avista requests recovery for $4.4 million associated with the Lancaster (after the $1.6 million offset for operating margin), and Avista would allocate that amount on a cents per kWh basis, as though they were typical variable energy costs. Thus, regardless of the justification for allowing for recovery of these Lancaster costs in this PCA, the fact remains that almost one-third of the approximately $16.5 million increase in expenses requested for the deferral period is associated with ***fixed*** costs for a gas plant.

Avista rationalizes this expense on the ground that the "Lancaster fixed costs are not the same as the fixed costs of Company owned generating resources." Avista's Responses to

Clearwater's Production Request No. 6. This is so, according to Avista, because "[a]ll the Lancaster 'fixed costs' fall into FERC Accounts normally tracked by the PCA, including Account 555 for the power purchase agreement charges, 565 for the BPA transmission expenses and 547 for the Lancaster gas transportation expenses." *Id.* Avista admits "[t]hey are termed 'fixed costs' because, in general, *their levels don't vary with changes in generation*." *Id.* (emphasis added). But Avista confusingly asserts that "all Lancaster's expenses and revenues are included in accounts normally tracked by the PCA, so there aren't any Lancaster fixed costs in the way the term was used in Mr. Hessing's testimony [in Case Nos. AVU-E-04-1 and AVU-G-04-1]." This explanation makes no sense; these are fixed costs that do not vary with changes in generation, and they should not be allocated among customer classes as though they were variable energy costs.

Clearwater respectfully requests that the Commission therefore allocate this PCA on a uniform percentage of revenue basis per customer class. Alternatively, at a minimum, Clearwater respectfully requests that the Commission require Avista to split the PCA revenue requirement such that it will allocate recovery of the $4.4 million in fixed Lancaster costs on a more reasonable basis for a fixed cost expense – on a uniform percentage of revenue basis per customer class.

2. Avista's recovery of $9.3 million through the Retail Revenue Credit Rate includes substantial expenses related to fixed costs, and the Commission should only allow recovery of such expenses on a uniform percentage of revenue basis per customer class.

The Commission-approved stipulation in the 2009 general rate case altered Avista's Retail Revenue Credit such that the mechanism now accounts not only for typical power production costs, but also for costs associated with transmission, including return on rate base.

See Avista's Responses to Clearwater's Production Request No. 3(a). The transmission related component of the $9.3 million Retail Revenue Credit Rate recovery requested in this case is entirely associated with fixed costs. Indeed, in the 2010 general rate case, the parties agreed to allocate transmission costs 100% to demand, and 0% to energy. *See Stipulation*, Case No. AVU-E-10-01, ¶ 11 (July 27, 2010). The effect of this PCA filing's inclusion of transmission costs undoes the intent of the parties in the general rate case by essentially expensing transmission related expenses 100% to energy through the equal cents per kWh allocation.

The method of allocation to customer classes of PCA costs has a significant impact on Clearwater Paper's contribution to PCA costs. Fixed costs were introduced into Avista's LGAR beginning in August 2009 when the Company switched from basing the LGAR rate on marginal costs to "the average cost of production and transmission." *See* Avista's Responses to Clearwater's Production Request No. 3(a). For the past year allocating the PCA on a cents per kWh basis, rather than on an equal percentage, has had a large impact on Clearwater Paper's contribution to the PCA. Based on the Commission-approved rate of 0.344 cents per kilowatt-hour, Clearwater Paper's responsibility will be approximately $3.2 million. However, if Avista's deferral costs of $10.8 million had been based on an equal percentage basis Clearwater Paper's allocation would have been approximately $2.0 million, for a difference of $1.2 million for the PCA year.

Clearwater therefore respectfully requests that the Commission require Avista to allocate recovery in this PCA on a uniform percentage of revenue basis per customer class. Alternatively, Clearwater requests that, if the Commission authorizes recovery of the $9.3 million associated with the Retail Revenue Credit Rate, it should, at a minimum, require Avista to split the PCA revenue requirement such that transmission-related fixed costs and return on rate base included in the $9.3 million Retail Revenue Credit amount are recovered on a uniform percentage of revenue basis per customer class.

III

CONCLUSION

Clearwater respectfully requests that the Commission deny the Company's recovery of a $9.3 million through the Retail Revenue Credit or, at a minimum, allow the Company to only collect the revenue subject to rebate until the completion of Case No. GNR-E-10-03. Clearwater additionally protests Avista's rate spread methodology and respectfully requests that the Commission require Avista to spread the 2010 PCA among customer classes on a uniform percentage of revenue basis per customer class. At a minimum, Clearwater request that the Commission require Avista to spread $4.4 million in fixed Lancaster costs, and the amount associated with transmission and return on rate base in the $9.3 million Revenue Retail Credit, on a uniform percentage of revenue basis per customer class.

DATED this 16th day of September 2010.

RICHARDSON AND O'LEARY, PLLC

By: Peter J. Richardson

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AVU-E-10-03

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

Comments and Protest of Clearwater Paper Company

September 16, 2010

Attachment 1

Avista's Responses to Clearwater's Production Request Nos. 1-3, and 6

AVISTA CORPORATION
RESPONSE TO REQUEST FOR INFORMATION

JURISDICTION:	IDAHO	DATE PREPARED:	08/24/2010
CASE NO:	AVU-E-10-03	WITNESS:	William G. Johnson
REQUESTER:	Clearwater Paper	RESPONDER:	William Johnson
TYPE:	Production Request	DEPARTMENT:	Power Supply
REQUEST NO.:	Clearwater-01	TELEPHONE:	(509) 495-4046

REQUEST:

The table on page 3 of the Direct Testimony of William G. Johnson indicates the "Change in Retail Loads" contributes $2.9 million to the net deferral surcharge of $16.4 million.

(a) Please provide an explanation of how this value was derived, and whether this value is associated with Avista's Retail Revenue Credit Rate.
(b) Please provide in electronic form the components that are used in deriving this value.
(c) Does this value include transmission expenses?
(d) Please provide a history over the past 5 years of the impact of the "Change in Retail Loads" on power supply expense filings and rate changes.
(e) Please explain why Avista believes ratepayers should compensate the Company for loss of loads through the PCA, even though fewer kilowatt-hours were demanded by customers.

RESPONSE:

a) Please see worksheet provided in electronic form showing how the impact of load variation in the PCA was derived, and how the Retail Revenue Credit Rate is incorporated into the calculation. The $2.9 million retail load change impact value is calculated by multiplying the change in load (Idaho allocation) by the market price of electricity and then netting this value with the retail revenue credit. For the July 2009 through June 2010 period loads were lower, which reduced power supply expense by approximately $7.4 million (Idaho allocation). The retail revenue credit was approximately $10.3 million in the surcharge direction. Netted together the impact of retail load change was approximately $2.9 million in the surcharge direction.

b) See response to part a above.

c) Transmission expense is included to the extent that the retail revenue credit rate is the average cost of production and transmission.

d) The table below shows the impact on the PCA of system load variation from the authorized level calculated in a manner consistent with the calculation for the impact in the July 2009 through June 2010 period. The table shows that in the three PCA years priors to the period in the case the system loads were higher than the authorized level, and the impact on the PCA was in the surcharge direction. The impact of load variation was not calculated for the July 2005 through June 2006 PCA period.

PCA Period	System Load Variation from Authorized	Impact of System Load Variation
Jul 05 - Jun 06	NA	NA

Jul 06 - Jun 07	+92.0 aMW	$4,125,023
Jul 07 - Jun 08	+122 aMW	$5,785,986
Jul 08 - Jun 09	+5.9 aMW	$4,127,328
Jul 09 - Jun 10	-66.4 aMW	$2,910,762

e) The Company uses the average cost of production and transmission as the retail revenue credit rate in the PCA. This was proposed by the Company in Case No. AVU-E-09-01. In the Stipulation and Settlement of that case, the Company agreed to supply all the PCA authorized values, including the retail revenue credit in a compliance filing. The Commission approved the Stipulation and Settlement in Order No. 30856, dated July 17, 2009.

The average production and transmission cost represents the power component of retail rates, and is the revenue collected from customers to recover power and transmission costs. Using the average cost of production and transmission as the retail revenue credit in the PCA ensures that the actual revenue collected from customers, when retail sales are higher than the authorized level, is credited back against the increased power supply expense and only the difference between the actual cost of power and the amount of revenue collected from customers is included in the PCA.

The average production cost also works equally well when actual sales are lower than the authorized sales. In that case, actual power supply expense is lower because loads are less than the authorized level. The retail revenue credit adjusts for the increased wholesale revenue the Company received and that is credited to customers in the PCA. To not include a retail revenue credit when loads are less than the authorized level would equate to customers receiving all the value of increased wholesale revenues without having to pay for any of the expense of generating the energy that is sold.

AVISTA CORPORATION
RESPONSE TO REQUEST FOR INFORMATION

JURISDICTION:	IDAHO	DATE PREPARED:	08/24/2010
CASE NO:	AVU-E-10-03	WITNESS:	William G. Johnson
REQUESTER:	Clearwater Paper	RESPONDER:	William Johnson
TYPE:	Production Request	DEPARTMENT:	Power Supply
REQUEST NO.:	Clearwater-02	TELEPHONE:	(509) 495-4046

REQUEST:

If the $2.9 million amount specified in Request No. 1 does not account for Avista's Retail Revenue Credit Rate, please provide the following:

(a) Please provide the rate impact of Avista's Retail Revenue Credit Rate in this PCA case, and an explanation of how this value was derived.

(b) Please provide in electronic form the components that are used in deriving this value.

(c) Does this value include transmission expenses?

(d) Please provide a history over the past 5 years of the impact of Avista's Retail Revenue Credit Rate on power supply expense filings and rate changes.

(e) Please explain why the Avista believes ratepayers should compensate the Company for loss of loads through the PCA, even though fewer kilowatt-hours were demanded by customers.

RESPONSE:

The $2.9 million amount specified in Request No. 1 does account for Avista's Retail Revenue Credit Rate.

AVISTA CORPORATION
RESPONSE TO REQUEST FOR INFORMATION

JURISDICTION:	IDAHO	DATE PREPARED:	08/24/2010
CASE NO:	AVU-E-10-03	WITNESS:	William G. Johnson
REQUESTER:	Clearwater Paper	RESPONDER:	William G. Johnson
TYPE:	Production Request	DEPARTMENT:	Energy Resources
REQUEST NO.:	Clearwater-03	TELEPHONE:	(509) 495-4046

REQUEST:

Reference IPUC Order No. 31033, at p. 12. In PacifiCorp's 2010 PCA, the Commission stated that in times of declining loads PacifiCorp's load growth adjustment mechanism "appears to operate much the same as a decoupling mechanism reimbursing the Company for lost revenue for reductions in customer usage (sales)."

(a) Is Avista's Retail Revenue Credit Rate operating much the same as a decoupling mechanism in this PCA case? Please explain.

(b) What power supply cost is the Company recovering with its Retail Revenue Credit Rate in this case (e.g., gas costs, power purchase costs, return on rate base, etc.)?

(c) Please explain the rationale for utilizing Avista's Retail Revenue Credit Rate for the deferral period in this case where loads are declining.

(d) Please cite or provide the Commission order authorizing Avista to utilize the Retail Revenue Credit Rate during a deferral period with declining loads.

RESPONSE:

(a) No. The retail revenue credit in the PCA deferral calculation does not operate as a decoupling mechanism. A decoupling mechanism normally is designed to eliminate or minimize changes in <u>total retail revenues</u> due to changes in loads. Avista's retail revenue credit in the PCA does not do that.

The retail revenue credit only accounts for changes in power production costs and revenues, and not in changes to the entire retail revenues. Prior to October 2008 the retail revenue credit in the PCA was based on the marginal cost of power. The retail revenue credit was based on the average cost of production for the months of October 2008 through December 2008, and returned to being the marginal cost of power in January 2009. Then, beginning in August 2009, the retail revenue credit rate was based on the average cost of production and transmission. The August 2009 rate was less than the rate that it replaced. The rate went from \$0.05363 to \$0.04323 per kilowatt-hour.

(b) The retail revenue credit is based on the average cost of production and transmission. All production and transmission costs, including return on rate base are included.

(c) The retail revenue credit is designed and authorized to operate when retail loads are higher or lower than authorized retail loads. When loads are higher than authorized, the additional production and transmission related revenue received from customers is credited back against the increased power supply costs to serve the additional load. Likewise, when loads are lower than authorized, the lost production and transmission related revenue is charged against the lower power supply costs to serve the reduced load.

AVISTA CORPORATION
RESPONSE TO REQUEST FOR INFORMATION

JURISDICTION:	IDAHO	DATE PREPARED:	08/24/2010
CASE NO:	AVU-E-10-03	WITNESS:	William G. Johnson
REQUESTER:	Clearwater Paper	RESPONDER:	William Johnson
TYPE:	Production Request	DEPARTMENT:	Power Supply
REQUEST NO.:	Clearwater-06	TELEPHONE:	(509) 495-4046

REQUEST:

In support of allocating PCA costs on an equal cents per kWh basis, Commission Staff testified that variable "power supply costs that are captured in the PCA mechanism are directly related to the *variable costs of providing energy*. The *fixed costs of power supply are not captured* in the PCA." Direct Testimony of Keith Hessing, Commission Staff, Case Nos. AVU-E-04-1 and AVU-G-04-1, at p. 23 (June 21, 2004). But in this case the Direct Testimony of William G. Johnson, at page 3, indicates that the Company's filing includes a request for recovery of 100% of the Lancaster *fixed costs* for the deferral period – a quantity of approximately $6 million. Does Avista believe it is appropriate to allocate such fixed costs among customer classes on a equal cents per kWh basis rather than as a uniform percentage of revenue basis per customer class? Please explain.

RESPONSE:

The Lancaster fixed costs are not the same as the fixed costs of Company owned generating resources. All the Lancaster "fixed costs" fall into FERC Accounts normally tracked by the PCA, including Account 555 for the power purchase agreement charges, 565 for the BPA transmission expenses and 547 for the Lancaster gas transportation expenses. They are termed "fixed costs" because, in general, their levels don't vary with changes in generation. In fact, all Lancaster's expenses and revenues are included in accounts normally tracked by the PCA, so there aren't any Lancaster fixed costs in the way the term was used in Mr. Hessing's testimony. Therefore it is appropriate to allocate all Lancaster costs among customer classes on an equal cents per kWh as is the case with other normal power supply costs that are captured in the PCA mechanism.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 16th day of September, 2010, a true and correct copy of the within and foregoing COMMENTS AND PROTEST OF CLEARWATER PAPER CORPORATION was served as shown to:

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By: Nina Curtis

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