

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

<b>IN THE MATTER OF AVISTA</b>	)	
<b>CORPORATION'S ANNUAL POWER COST</b>	)	<b>CASE NO. AVU-E-10-03</b>
<b>ADJUSTMENT (PCA) FOR RECOVERY OF</b>	)	
<b>POWER COSTS DEFERRED JULY 1, 2009</b>	)	
<b>THROUGH JUNE 30, 2010.</b>	)	<b>ORDER NO. 32080</b>
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On July 27, 2010, Avista Corporation dba Avista Utilities filed its annual Power Cost Adjustment (PCA) Application. Avista requests an order approving a PCA surcharge of 0.532¢/kWh for recovery of power costs deferred for the period of July 1, 2009 through June 30, 2010. Application at 1. The Company requested that its Application be processed by Modified Procedure and that its rates become effective on October 1, 2010.

On August 4, 2010, the Commission issued a Notice of Application and Notice of Modified Procedure and set a September 16, 2010, comment deadline. The Commission received written comments from Clearwater Paper Corporation, Commission Staff, and five residential customers. Avista filed reply comments on September 21, 2010. After reviewing the Application and the comments, we approve a PCA surcharge of 0.532¢/kWh and recovery of deferred power costs totaling \$16,546,091 deferred for the period of July 1, 2009 through June 30, 2010. We authorize the new rates to become effective October 1, 2010.

**THE APPLICATION**

Avista's PCA mechanism is used to track changes in revenues and costs associated with variations in hydroelectric generation, secondary prices, thermal fuel costs, and changes in power contract revenues and expenses. The Company's existing PCA methodology and method of recovery were 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 rate adjustment filing requirement. The Commission also approved a change in the method of PCA deferral recovery from a uniform percentage basis to a uniform cents-per-kWh basis.

The proposed 0.532¢/kWh PCA surcharge will replace an existing 0.344¢/kWh surcharge, for an increase of 0.188¢/kWh (or 2.61%). The proposed surcharge is designed to recover power costs deferred by the Company for the period of July 1, 2009 through June 30,

2010, as well as the unrecovered balance related to the July 1, 2008 through June 30, 2009 deferral period, and interest during the recovery period of October 1, 2010 through September 30, 2011. The primary factors contributing to the higher power supply expenses during the deferral period are low hydro generation and costs associated with the Lancaster plant.<sup>1</sup>

Under the Company's proposal, an average residential customer using 1,000 kWh per month will experience an increase in their monthly bill of \$1.88. The actual percentage increase will vary by rate schedule as shown below.

<b>Customer Group (Schedule)</b>	<b>Percentage Increase</b>
Residential (Schedule 1)	2.30%
General Service (Schedules 11, 12)	1.91%
Large General Service (Schedules 21, 22)	2.46%
Extra Large General Service (Schedule 25)	3.53%
Clearwater (Schedule 25P)	3.83%
Pumping Service (Schedules 31, 32)	2.34%
Street and Area Lights (Schedules 41-49)	0.81%

## **THE COMMENTS**

### ***Staff Comments***

Staff 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 2009 through June 2010. The Company's PCA 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 12 months ended June 30, 2010. The primary 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, the PCA accounts include additional power purchase costs when market prices are lower than generation costs. Generation costs associated with off-system sales are offset by the revenue from those sales. The total net increase in power supply cost, \$16,546,091, is comprised of the following 12 items:

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<sup>1</sup> Lancaster costs are currently being recovered through the PCA because the power purchase agreement became effective after base rates were established in AVU-E-09-01. Stipulation and Settlement at 10, approved by Order No. 30856. Effective October 1, 2010, the fixed and variable operating costs of the Lancaster power plant will be recovered through Avista's base electric rates. Order No. 32070.

1. FERC Account 555 – Purchased Power	\$55,298,168
2. FERC Account 501 – Thermal Fuel	- 1,767,669
3. FERC Account 547 – CT Fuel	11,871,945
4. FERC Account 447 – Sales for Resale	- 51,923,140
5. All Clearwater Revenues and Expenses	- 6,057,308
6. Resource Optimization – Profit on Natural Gas Resold	- 1,350,064
7. Idaho Retail Revenue Adjustment	9,297,028
8. Net Transmission Revenue and Expense	173,930
9. Federal Production Tax Credit	471,981
10. Lancaster Costs	599,033
11. Centralia Refund Adjustment	- 189,607
12. Interest during deferral period	<u>121,794</u>
<b>Total</b>	<b>\$16,546,091</b>

A detailed explanation of each item is set forth in Staff's comments. The estimated unrecovered balance related to the July 1, 2008 through June 30, 2009, deferral period (which continues to be recovered with the existing PCA rate through the end of September) and the estimated interest for the recovery period of October 1, 2010 through September 30, 2011, amount to \$2,184,794. The proposed 0.532¢/kWh PCA surcharge is designed to recover \$18.7 million – the total of the deferral balance and the estimates.

Staff noted that this year the power cost adjustment filings of all three Idaho electric utilities have reported load declines. As a result, all three utilities added costs into their cost adjustment mechanisms based on fixed production costs, and, in Avista's case, fixed production and fixed transmission costs. In the instant case the fixed-cost recovery component is \$9,297,028. Staff expressed concern that adding fixed costs into the PCA for recovery from customers may not be appropriate and Staff has met with the utilities to discuss the situation. A workshop open to all interested parties was held at the Commission office on September 28, 2010. Despite the concerns about fixed-cost recovery, Staff believes that any change in methodology would have to be applied prospectively. Therefore, Staff is not proposing to adjust the deferred amount in this case.

Based upon its review, Staff concluded that the accounting transactions appeared reasonable at the time they were made. Staff also determined that the PCA calculations and

amounts were correct and recommended that they be included in the deferral balance as of June 30, 2010. Staff recommended the Commission accept the audited deferral balance of \$16,546,091 for the period July 1, 2009 through June 30, 2010, and approve that amount for recovery. Staff further recommended that a PCA rate of 0.532¢/kWh be approved and become effective October 1, 2010.

### ***Public Comments***

Five residential customers filed written comments with the Commission. All customer comments opposed an increase in rates at this time.

### ***Clearwater Paper Comments***

On September 16, 2010, Clearwater Paper Corporation filed comments and a protest to Avista's PCA Application. Clearwater argued that Avista's load growth adjustment mechanism (Retail Revenue Credit Rate) operates as a decoupling mechanism, allowing the Company to recover lost production expenses in times of declining load. Clearwater maintained that Avista has not been authorized to implement a decoupling mechanism and, therefore, approximately \$10.3 million included in Avista's PCA associated with load growth adjustment recovery should be disallowed.

Clearwater also protested Avista's rate spread methodology. Clearwater argued that PCA costs should be allocated on a uniform percentage of revenue basis per customer class rather than on an equal cents-per-kWh basis because Avista's PCA filing includes approximately \$4.4 million in fixed-cost recovery (Lancaster plant costs). Clearwater maintained that 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." Clearwater Comments and Protest at 10. If the Commission declines to spread the 2010 PCA costs as a uniform percentage of revenue basis per customer class, Clearwater asks that, at a minimum, the Commission require Avista to split the PCA revenue requirement in such way that the \$4.4 million in fixed Lancaster costs are allocated "on a more reasonable basis for a fixed cost expense. . . ." *Id.* at 12.

### ***Avista Reply Comments***

Avista filed reply comments on September 21, 2010, in direct response to Clearwater's comments and protest. Avista asserted that Clearwater revisits issues already decided by the

Commission, makes proposals that violate principles against retroactive ratemaking, and puts forth arguments that are without merit.

Avista states that the PCA is designed to track changes in power supply costs from the costs included in base retail rates. The vast majority of changes in costs over time are 'energy-related' changes in costs and not "demand-related" changes in costs. Avista asserted that because "changes in energy-related costs are related primarily to changes in the level of hydroelectric generation, changes in thermal generation and thermal fuel costs, and changes in the wholesale market prices," it is appropriate that PCA costs be spread on an equal cents-per-kWh basis. Reply Comments at 3. Avista further pointed out that, prior to October 1, 2007, PCA deferrals were recovered utilizing a uniform percentage basis. The Commission determined that, for purposes of the PCA, a cents-per-kWh recovery method was superior to uniform percentage recovery. Order No. 29602.

Avista maintained that Clearwater's representation that the Retail Revenue Credit imposes additional, unreasonable costs on customers due to declining loads is inaccurate and misleading. Avista stated that it is the relationship between the wholesale market price of power and the retail revenue credit rate, not the retail revenue credit alone, that creates an impact of load change in the PCA. Reply at 9. Avista further stated that not only would denial of the retail revenue credit violate the parameters of Avista's approved PCA methodology, but Clearwater's proposal to recover the revenue subject to refund would also violate principles against retroactive ratemaking. Avista also noted Staff's position that any changes to the retail revenue credit would have to be applied prospectively.

Avista pointed out that the Commission opened a case (GNR-E-10-03) and scheduled a workshop (held September 28, 2010) to address some of the issues raised by Clearwater. Avista asserted that Clearwater's issues would be more appropriate to address within the GNR-E-10-03 case and that any recommendations resulting from that case should be applied prospectively.

### **FINDINGS AND CONCLUSIONS**

Power cost adjustment mechanisms are now being utilized by Idaho's three major electric utilities. Each of these adjustment mechanisms contains an adjustment to power costs for variations between normal and actual loads. When loads grow, a portion of the power costs of serving the load is removed from the power cost adjustment mechanism. When loads decline,

costs have been added to the mechanism and are passed on to customers. This Commission has observed and expressed concern that in periods of declining load the mechanism operates much the same as a decoupling mechanism, reimbursing the Company for lost revenue for reductions in customer usage. Order No. 31033. In response to our concern over this phenomenon, we initiated Case No. GNR-E-10-03 to further explore the issues related to load growth adjustments. Commission Staff and utility representatives have met and discussed the issues. A collaborative workshop, open to all interested parties, was also held on September 28, 2010. Because any change in methodology would necessarily be applied prospectively, Clearwater's concerns about Avista's load growth adjustment mechanism are more appropriately addressed within the GNR-E-10-03 case.

We decline Clearwater's request to allocate costs in this PCA on a uniform percentage of revenue basis per customer class. This Commission previously allocated PCA costs on a uniform percentage basis, but determined that a cents-per-kWh recovery method was more equitable to all customers than a percentage allocation. Moreover, in Case No. AVU-E-09-01/AVU-G-09-01, Clearwater signed as a party to a Stipulation and Settlement (subsequently adopted by the Commission in Order No. 30856) that allowed Avista to recover costs associated with Lancaster through this year's PCA. Clearwater's argument to allocate costs already approved to be recovered within this year's PCA as if they were general rate case costs is unpersuasive. However, as a result of Avista's 2010 general rate case, effective October 1, 2010, the fixed and variable operating costs of the Lancaster power plant *will* be recovered through Avista's base electric rates, and not subsequent PCAs. Order No. 32070.


After reviewing the PCA Application and the comments filed in this case, the Commission accepts the audited deferral balance of \$16,546,091 and finds it fair, just and reasonable to approve a PCA surcharge of 0.532¢/kWh to be effective October 1, 2010.

### **ORDER**

IT IS HEREBY ORDERED that the Application of Avista Corporation dba Avista Utilities for authority to implement a PCA surcharge of 0.532¢ per kWh and recovery of deferred power costs totaling \$16,546,091 deferred for the period of July 1, 2009 through June 30, 2010 is approved. The tariff sheets filed with the Company's Application are hereby approved, to be effective October 1, 2010.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

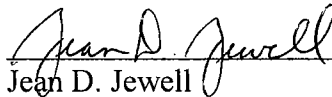
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 30<sup>th</sup> day of September 2010.

  
JIM D. KEMPTON, PRESIDENT

  
MARSHA H. SMITH, COMMISSIONER

  
MACK A. REDFORD, COMMISSIONER

ATTEST:

  
Jean D. Jewell  
Commission Secretary

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