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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA CORPORATION'S ANNUAL POWER COST ADJUSTMENT (PCA) FOR RECOVERY OF POWER COSTS DEFERRED JULY 1, 2009 THROUGH JUNE 30, 2010.	**CASE NO. AVU-E-10-03** **COMMENTS OF THE COMMISSION STAFF**

The Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Kristine A. Sasser, Deputy Attorney General, in response to the Notice of Application and Notice of Modified Procedure (Order No. 32044) submits the following comments.

BACKGROUND

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 and recovery of deferred power costs totaling $16,546,091 deferred for the period of July 1, 2009 through June 30, 2010. The Company requests that its Application be processed by Modified Procedure and that its rates become effective on October 1, 2010.

Avista's PCA mechanism is used to track changes from normal revenues and costs included in base rates that are associated with variations in power supply costs. These revenue and cost variations are primarily caused by differences between normal and actual hydroelectric generation, secondary market prices, thermal fuel costs, Idaho load and changes in power contract revenues and expenses. The primary factors contributing to higher power supply expenses during the deferral period are low hydro generation, costs associated with the Lancaster plant[1] and reduced Idaho load. The proposed 0.532¢/kWh will replace an existing 0.344¢/kWh surcharge, for a PCA increase of 0.188¢/kWh or an overall rate increase of 2.61% on average.

The proposed surcharge is designed to recover power costs deferred by the Company for the period of July 1, 2009 through June 30, 2010 of $16,546,091, and 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 estimated interest for the recovery period of October 1, 2010 through September 30, 2011. These estimated amounts total $2,184,794. The estimates are made to increase the accuracy of the PCA rate which minimizes future true ups. Estimated amounts are trued up to actual in the following year's PCA. The proposed 0.532¢/kWh PCA surcharge is designed to recover $18.7 million, the total of the deferral balance and the estimates.

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 2009 through June 2010. Staff was able to look at 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) and the 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, 2010.

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

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[1] 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. The Stipulation in AVU-E-10-01 (if approved) includes the Lancaster costs in base rates. After October 1, 2010, only the differential will flow through the PCA.

twelve 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, 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 increase in power supply cost, $16,546,091, is comprised of the following twelve items (an explanation of each item also follows):

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	121,794
13. Total	$16,546,091

1. FERC Account 555 - Purchased Power. Purchased Power costs reflect 90% of the Idaho jurisdictional share of the difference in costs the Company incurred for power purchases in the review period compared to normalized purchased power costs included in base rates. In the review period, the Company incurred more purchased power costs than are included in base rates. The positive amount represents a cost to customers.

2. FERC Account 501 - Thermal Fuel. Thermal Fuel, primarily coal, is used to produce electricity. The amount is 90% of the Idaho jurisdictional share of the difference in costs the Company incurred for thermal fuel compared to the normalized amount included in base rates. During the review period the Company incurred lower coal costs than are currently included in base rates. The negative amount represents a benefit to customers.

3. FERC Account 547 - CT Fuel. Combustion Turbine or CT Fuel is natural gas burned in the Company's gas fired generators. This amount represents 90% of the Idaho jurisdictional share of the difference in costs the Company incurred for gas generator fuel compared to the amount included in normalized base rates. In the review period, the Company incurred more natural gas costs than are currently included in base rates. The positive amount represents a cost to customers.

4. FERC Account 447 - Sales for Resale. Sales for Resale are long-term and short-term off-system sales. The negative amount represents 90% of the Idaho jurisdictional share of the increase in off-system sales revenues above the amounts included in base rates. This negative amount represents a decrease in costs during the review period and is a benefit or credit to customers.

5. All Clearwater Revenues and Expenses. The Clearwater (fka Potlatch) revenues and expenses component is a direct assignment to Idaho of the difference in Clearwater costs and revenues (for its Lewiston facility) relative to the normalized Clearwater costs and revenues established in the Company's last general rate case. The negative net amount indicates that, during the review period, the cost of serving Potlatch was less than the amount included in base rates. This negative amount is a PCA benefit to Idaho customers.

6. Resource Optimization - Profit on Natural Gas Resold. Resource Optimization amounts result when natural gas purchased in advance for use in generating plants is later sold because it is more cost effective to sell the gas and purchase electricity than it is to generate electricity with the gas. Ninety percent of the Idaho jurisdictional share of the gain or loss on the sale of the gas is included in the PCA. Staff has verified that at the time the gas was initially purchased, the cost of producing electricity at Avista's natural gas plants, primarily the Coyote Springs facility, was less expensive than purchasing electricity on the open market to meet native load. Furthermore, Staff has verified that at the time the gas was resold and electricity purchased to meet native load, that the resale of the gas and corresponding electricity purchased was the least expensive and most cost-effective alternative. The gain during the review period, shown as a negative amount, is a benefit to Idaho customers.

7. Idaho Retail Revenue Adjustment. The Idaho Retail Revenue Adjustment has three components. First, the load change adjustment removes the average fixed cost of Production and Transmission from PCA calculations when load grows. When load declines, as it has in this

case, the adjustment adds back the embedded fixed costs of Production and Transmission at the currently approved rate of $43.23/MWh. This rate is reestablished whenever base power supply costs are reset. The rate is multiplied by the change in load to produce the adjustment.

The other two retail revenue components include a customer credit associated with Schedule 95 wind revenue and a customer credit for the purchase of Potlatch generation. Ninety percent of the total Idaho Retail Revenue Adjustment is included in the PCA. The amount is $9,297,028 which is 56% of the total deferred amount requested for recovery in this case. The positive amount represents a cost to customers.

This year the power cost adjustment filings of all three Idaho electric utilities have reported load declines. Therefore, all three utilities have 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 current case this fixed cost recovery component is $9,297,028. The Staff is concerned that adding fixed costs into the PCA for recovery from customers may not be appropriate and Staff has met with all three electric utilities to discuss the situation. The Staff has scheduled a workshop for September 28, 2010, at the Commission office to meet with any additional interested parties. The Staff believes that any change in the methodology would have to be applied prospectively. Therefore, Staff is not proposing to adjust the deferred amount in this case.

8. Net Transmission Revenue and Expense. The Company proposed, and the Commission Staff agreed, to include transmission revenues and expenses in the PCA in the 2009 general rate case, AVU-E-09-01. Avista incurs third party transmission costs when it purchases power and has it wheeled or delivered to its service area by a third party. Avista also incurs third party transmission costs when it sells power and pays a third party to deliver it. Third party transmission revenues occur when Avista is the third party and is delivering power for others. Including transmission revenues and expenses in the PCA tracks the variability of these items. In the review period, the transmission expenses were greater than the transmission revenues and the net of the transmission revenues and expenses is a cost to customers.

9. Federal Production Tax Credit. The Company proposed, and the Commission Staff agreed, to include in the PCA the difference between actual Production Tax Credit and the amount of Production Tax Credits included in base rates. The Company received a production tax credit for energy generated at Kettle Falls and for the Cabinet Gorge upgrade. The normal

Production Tax Credit reduces the revenue requirement in base rates. The credit is directly related to Company power supply costs and varies with energy production. Allowing the credits to be included in the PCA will ensure that all the benefits received related to Kettle Falls are passed on to customers without harming the Company when the Kettle Falls credits expire. In the review period, the amount of production tax credit included in base rates was more than the actual production tax credits received for the energy produced, and this difference is a cost to customers.

10. Lancaster Costs. Lancaster fixed costs including the power purchase agreement charges, gas transportation and BPA transmission charges are recovered at 100% of the actual expense in this PCA per Order No. 30856 dated July 17, 2009. Variable fuel and generation values are tracked at the normal 90/10 sharing percentage.

11. Centralia Refund Adjustment. The Company sold its ownership share of the Centralia power plant in May 2009. Funds were withheld from the proceeds of the sale of the Centralia plant to pay for potential environmental remediation. The held back funds reduced the gain on the original sale of the Centralia plant. This is a one-time refund of the unexpended Centralia environmental remediation funds, and is a benefit to customers.

12. Interest During Deferral Period. The Company calculates interest on the deferral balance using the methodology per Order No. 29323 in Case No. AVU-E-03-04. Staff reviewed the calculation of the interest and found the amounts included in the filing to be correct. The Company uses the Customer Deposit Rate on current year deferrals and on carryover balances from one year to the next. The Customer Deposit Rate for 2009 was 2% and for 2010 is 1%. Interest on the deferral balance accumulates during the deferral period at the customer deposit rate and is a cost to customers.

Estimated Amounts

The Company has included the following estimated amounts in its rate calculation:

Net unrecovered 2008 – 2009 deferral	$1,942,389
Various Interest Amounts	148,095
Revenue Conversion Amount	94,310
Total	$2,184,794

The Staff has reviewed the estimated amounts and believes that they are reasonable.

The PCA Rate

The PCA rate is calculated by dividing the sum of the deferred amount and the estimated amount by the amount of forecasted retail sales for the period that the rate will be in effect. ($16,546,091+$2,184,794)/3,522,531,000 kWh = $0.00532/kWh = 0.532 ¢/kWh

CONSUMER ISSUES

Customer Notice and Press Release

The Press Release and Customer Notice included in Avista's Application were reviewed and deemed to meet the requirements of IPUC Rules of Procedure 125.04 and 125.05. IDAPA 31.01.01.125. The customer notice was mailed with cyclical billings beginning July 29, 2010 and ending August 27, 2010.

Customer Comments

Customers were given until September 16, 2010 to file comments. As of September 15, 2010, five comments had been received, all opposing a rate increase.

Financial Assistance for Paying Heating Bills

If approved, Avista's residential customers will see an increase in their rates. No matter what the rate per kilowatt-hour, there will always be some customers that find it difficult to pay their utility bills. Staff encourages all those customers who qualify for energy assistance to apply for the federally-funded Low Income Home Energy Assistance Program (LIHEAP) and other non-profit fuel funds such as Project Share. For more information regarding financial assistance programs, customers should contact their local community action agency, Avista Utilities, the Idaho Public Utilities Commission, or the 2-1-1 Idaho Care Line.

STAFF RECOMMENDATION

Staff recommends the Commission accept the audited deferral balance of $16,546,091 for the period July 1, 2009 through June 30, 2010 and approve the amount for recovery. The Staff further recommends that a PCA rate of 0.532 ¢/kWh be approved effective October 1, 2010.

Respectfully submitted this 16TH day of September 2010.

Kristine A. Sasser

Kristine A. Sasser
Deputy Attorney General

Technical Staff: Kathy Stockton
Keith Hessing
Marilyn Parker

umisc/comments/avue10.3ksklskhmp comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 16TH DAY OF SEPTEMBER 2010, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-E-10-03, BY E-MAILING AND MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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