KARL T. KLEIN
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0312
IDAHO BAR NO. 5156

Street Address for Express Mail:
472 W. WASHINGTON
BOISE, IDAHO 83702-5983

Attorney for the Commission Staff

RECEIVED
2011 SEP 21 AM 10: 11
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-11-03**
	)	**COMMENTS OF THE COMMISSION STAFF**

The Staff of the Idaho Public Utilities Commission comments as follows on Avista Corporation's July 28, 2011 Application to approve an overall rate reduction of 5.99% due to a reduction in its PCA surcharge. The new rates are proposed to be effective October 1, 2011.

BACKGROUND

On July 28, 2011, Avista Corporation dba Avista Utilities filed its annual Power Cost Adjustment (PCA) Application. Avista requests an Order approving an overall reduction in its revenues of 5.99% with a proposed effective date of October 1, 2011. Application at 4. The Company requests that its Application be processed by Modified Procedure.

Avista's PCA mechanism is used to track changes in revenues and costs associated with variations in hydroelectric generation, secondary prices, thermal fuel costs, changes in power contract revenues and expenses, and a few other miscellaneous items.

The proposed 0.072¢/kWh PCA surcharge will replace an existing 0.532¢/kWh surcharge, a decrease of 0.460¢/kWh, resulting in an average 5.99% decrease in Avista's revenues. The proposed surcharge is designed to recover power costs and corresponding accrued interest deferred by the Company for the period of July 1, 2010 through June 30, 2011, as well as the unrecovered balance related to the July 1, 2009 through June 30, 2010 deferral period, and interest during the recovery period of October 1, 2011 through September 30, 2012.

When calculating power supply expenses, the Company noted that above normal hydro generation decreased power supply expenses during the deferral period. However, the hydro-related cost decrease was offset by increases associated with the Lancaster plant's fixed-costs, thermal fuel costs at Colstrip and Kettle Falls, and the effect of declining power prices. Lancaster fixed-costs were only included in the PCA deferral balance during July, August and September of 2010. Beginning October 1, 2010 they were included in base rates and are no longer included in PCA deferrals. Order No. 32070.

The proposed actual percentage decrease will vary by rate schedule as shown below.

Customer Group (Schedule)	Percentage Decrease
Residential (Schedule 1)	-5.19%
General Service (Schedules 11, 12)	-4.49%
Large General Service (Schedules 21, 22)	-5.73%
Extra Large General Service (Schedule 25)	-8.03%
Clearwater (Schedule 25P)	-8.80%
Pumping Service (Schedules 31, 32)	-5.26%
Street and Area Lights (Schedules 41-49)	-1.88%

STAFF REVIEW

Audit Results

Staff reviewed and audited the amounts included in the deferral balance in the current filing. Staff's review covered expenses incurred for the period July 2010 through June 2011. Staff looked 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 its review of these transactions, Staff concludes that the various power cost 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, 2011.

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 ending June 30, 2011. The net deferral's primary component 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. Generation costs associated with off-system sales are offset by the revenue from those sales. The proposed deferral amount, $2,084,533, consists of the following eleven items (an explanation of each item also follows):

1. FERC Account 555 - Purchased Power	$47,730,276
2. FERC Account 501 - Thermal Fuel	-909,404
3. FERC Account 547 - CT Fuel	-1,951,352
4. FERC Account 447 - Sales for Resale	-42,719,798
5. All Clearwater Revenues and Expenses	-5,886,403
6. Resource Optimization - Loss on Natural Gas Resold	1,694,158
7. Idaho Retail Revenue Adjustment	3,626,015
8. Net Transmission Revenue and Expense	-114,560
9. Federal Production Tax Credit	280,189
10. Lancaster Costs	315,247
11. Interest during deferral period	20,165
12. Total	$2,084,533

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. <u>FERC Account 501 - Thermal Fuel</u>. 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.

Staff notes that the Company made an inventory adjustment to fuel records for the Kettle Falls plant in June 2011 as a result of a physical inventory survey performed in May. The Company periodically adjusts the inventory records based on physical inventory surveys. Staff further notes that the latest survey also resulted in the re-calibration of the scale reading the fuel delivered to the plant. Staff agrees with the fuel record adjustment for the Kettle Falls plant and the inclusion in the PCA deferral balance.

3. <u>FERC Account 547 - CT Fuel</u>. 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 less natural gas cost than is currently included in base rates. The negative amount represents a benefit to customers.

4. <u>FERC Account 447 - Sales for Resale</u>. 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 an increase in sales for resale revenues, a decrease in costs during the review period, and is a benefit to customers.

5. <u>All Clearwater Revenues and Expenses</u>. The Clearwater revenue and expense components are a direct assignment to Idaho. They are based on 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 Clearwater was less than the amount included in base rates. This negative amount is a benefit to Idaho customers.

6. <u>Resource Optimization - Loss on Natural Gas Resold</u>. 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 notes that this line item only shows one side of the transaction when the Company utilizes its power plants for economic dispatch, and should not be looked at independently from the entirety of the optimization of Company resources. When looked at in its entirety, Resource Optimization is a benefit to customers.

Staff has verified that when the Company initially purchased the gas, 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 when the Company resold the gas and purchased electricity to meet native load, the resale of the gas and corresponding electricity purchased was the least expensive and most cost-effective alternative. The loss during the review period, shown as a positive amount, is a cost to Idaho customers.

7. Idaho Retail Revenue Adjustment. The Idaho Retail Revenue Adjustment has three components. First, the load change adjustment removes the average energy-related cost of Production from PCA calculations when load grows. When load declines, as it has in this case, the adjustment adds back the average energy-related cost of Production at the currently approved rate. The rate changed from $48.00/MWh to $30.16/MWh on April 1, 2011. 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 Clearwater generation. Ninety percent of the total Idaho Retail Revenue Adjustment is included in the PCA. The amount is $3,626,015. The positive amount represents a cost to customers.

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 difference in transmission expenses was less than the difference in

transmission revenue and the net of the transmission revenue and expense differences is a benefit 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. Including the credits 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. The PCA tracking of Lancaster fixed costs ended October 1, 2010 when these costs were placed in base rates.

11. Interest During Deferral Period. The Company calculates interest on the deferral balance using the methodology stated in Order No. 29323, Case No. AVU-E-03-04. Staff reviewed the Company's interest calculation 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 2010 and for 2011 is 1%. Interest on the deferral balance accumulates during the deferral period at the customer deposit rate and is a cost to customers.

Additional Amounts

The proposed surcharge is designed to recover the net deferral and corresponding accrued interest for the period July 1, 2010 through June 30, 2011 of $2,084,533 plus the unrecovered balance related to the July 1, 2009 through June 30, 2010 deferral period, and interest during the recovery period of October 1, 2011 through September 30, 2012. Therefore, in addition to the net deferral balance, the Company has included the following additional amounts in its rate calculation:

Expected unrecovered 2009 – 2010 deferral	$170,492
Various Expected Interest Amounts	163,210
Revenue Conversion Amount	8,990
Total	$342,692

The Staff has reviewed these additional estimated amounts, which are included only in the rate calculation to minimize next year's true-up. The Staff believes that they are reasonable. The amounts are trued-up in the following year's PCA.

The PCA Rate

The PCA rate is calculated by dividing the sum of the deferred amount and the additional estimated amounts by the amount of forecasted retail sales for the period that the rate will be in effect. ($2,084,533+$342,692)/3,358,927,000 kWh = $0.00072/kWh = 0.072 ¢/kWh

CUSTOMER RELATIONS

Customer Notice and Press Release

The Press Release and Customer Notice included in Avista's Application 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 August 6, 2011 and ending September 7, 2011.

Customer Comments

Customers were given until September 21, 2011 to file comments. As of September 15, 2011, no comments had been received.

Financial Assistance for Paying Heating Bills

If approved, Avista's residential customers will see a decrease in their electric rates. No matter what the rate per kilowatt-hour, however, 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 that the Commission accept the audited deferral balance of $2,084,533 for the period July 1, 2010 through June 30, 2011 and approve the amount for recovery. Staff also recommends the additional $342,692 be reflected in the recovery rate. Staff further recommends that a PCA rate of 0.072 ¢/kWh be approved effective October 1, 2011.

Respectfully submitted this 21st day of September 2011.

Weldon B Stutzman for

Karl T. Klein
Deputy Attorney General

Technical Staff: Keith Hessing
Kathy Stockton
Marilyn Parker

i:umisc/comments/avue11.3kkkhklsmp comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 21ST DAY OF SEPTEMBER 2011, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-E-11-03, BY E-MAILING AND MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

DAVID J MEYER
VP & CHIEF COUNSEL
AVISTA CORPORATION
PO BOX 3727
SPOKANE WA 99220-3727
E-MAIL: david.meyer@avistacorp.com

KELLY O NORWOOD
VP STATE & FED REG
AVISTA CORPORATION
PO BOX 3727
SPOKANE WA 99220-3727
E-MAIL: kelly.norwood@avistacorp.com

PETER J RICHARDSON
GREGORY M ADAMS
RICHARDSON & O'LEARY
PO BOX 7218
BOISE ID 83702
E-MAIL: peter@richardsonandoleary.com
greg@richardsonandoleary.com

DR DON READING
6070 HILL ROAD
BOISE ID 83703
E-MAIL: dreading@mindspring.com

Jo Nelson
SECRETARY