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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA)	
CORPORATION'S APPLICATION TO ADJUST)	CASE NO. AVU-E-14-06
ITS ANNUAL POWER COST ADJUSTMENT)	
(PCA) RATES.)	COMMENTS OF THE
)	COMMISSION STAFF
)	

The Staff of the Idaho Public Utilities Commission comments as follows on Avista Corporation's Application to adjust its Annual Power Cost Adjustment (PCA) Rates.

BACKGROUND

On July 30, 2014, Avista Corporation dba Avista Utilities (the Company) filed its annual PCA Application. The Company asks the Commission to let it recover \$7.7 million in deferred net power costs through a 0.252¢ per kilowatt-hour (kWh) PCA surcharge to be effective October 1, 2014.

The Company's PCA mechanism tracks changes in the Company's revenues and costs due to changes in hydropower generation, power market purchases and sales, fuel costs, and other miscellaneous revenues and costs. In this case, the Company attributes its increased net power supply expenses to:

- a forced outage at Colstrip Unit 4 that required the Company to buy replacement power at a higher wholesale price;

- 90% of the net expense of Palouse Wind flowing through the PCA as a surcharge deferral instead of being included in base rates; and
- a change in the Company's contract with Clearwater Paper that enables Clearwater to generate into its own load instead of selling its generation to the Company.

The Company says the proposed 0.252¢ per kWh PCA surcharge would collect: (1) deferrals from July 1, 2013 through June 30, 2014 (plus interest); (2) unrecovered balances for the July 1, 2012 through June 30, 2012 deferral period; (3) estimated interest during the period the new PCA rate will be in effect (October 1, 2014 through September 30, 2015); (4) a correction to the misallocation of natural gas transport costs; and (5) a credit for the 2013 earnings test proposed in Case No. AVU-E-14-05. If approved, the Company's proposed, 0.252¢ per kWh PCA surcharge would be a 0.404¢ per kWh increase over the 0.152¢ per kWh rebate set in last year's PCA case.

The Company-proposed, overall rate increase to customers of 4.99% is reflected by schedule below:

Type of Service	Schedule	Billed Revenue % Increase
Residential	1	4.44%
General Service	11, 12	3.90%
Large General Service	21, 22	5.02%
Extra Large General Service	25	7.41%
Clearwater	25P	7.98%
Pumping Service	31, 32	4.37%
Street and Area Lights	41-49	1.66%
Total		4.99%

About 38% of the overall rate increase is due to the elimination of last year's PCA rebate. The remaining 62% increase occurs because the Company's power supply costs during the July 1, 2012 through June 30, 2014 deferral period were higher than the Company's power supply costs embedded in base rates.

STAFF REVIEW

Staff thoroughly reviewed the Company's PCA Application, including: (A) Actual and authorized expense audit; (B) Net deferral activity; (C) Deferral calculation methodology; (D) Authorized-to-actual net power supply expense analysis; (E) Other surcharge adjustments; and (F) Proposed PCA rate adjustments. Staff Review is summarized below.

A. Actual and Authorized Expense Audit

Staff conducted an onsite audit from August 18-22, 2014. Staff reviewed and audited the actual expenses the Company incurred from July 2013 through June 2014. Staff examined 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 Revenue account (FERC 447). Based on its review of these transactions, Staff concludes that the various power cost transactions were reasonable when made. Staff also reviewed the other PCA calculations and amounts, including the Natural Gas Transport Costs previously charged to natural gas customers, and the Company's adjustment to Renewable Energy Credit (REC) revenue. Staff finds the amounts the Company booked to the PCA deferral account, and the Company's other calculations, to be correct.

Staff also verified all the authorized amounts used to calculate the base-to-actual deferral. Staff believes the base amounts properly reflect the rates established in Commission Order from the applicable general rate case.

B. Net Deferral Activity

The "net deferral activity" is Idaho's jurisdictional share of the power cost differences from base and the associated revenue adjustments that the Company has deferred under the PCA mechanism for the twelve months ending June 30, 2013. The net change in Power Supply Costs (FERC Accounts 555, 501, 547, and 447) is one component of the net deferral. The Power Supply Cost accounts include the Company's cost to serve its load with its own resources, and also include additional power purchase costs that the Company incurs when market prices are lower than generation costs. Generation costs associated with off-system sales are reduced by the revenue from those sales. The Company's proposed \$7,705,909 deferral amount, consists of the following items:

1. FERC Account 555 - Purchased Power	\$33,946,400
2. FERC Account 501 - Thermal Fuel	(2,714,373)
3. FERC Account 547 - CT Fuel	5,672,255
4. FERC Account 447 - Sales for Resale	(24,246,033)
5. All Clearwater Revenues and Expenses	2,320,289
6. Resource Optimization - Gain on Natural Gas Resold	(3,427,093)
7. Idaho Retail Revenue Adjustment	(4,127,399)
8. Net Transmission Revenue and Expense	420,267
9. Adjustment to RECs	(157,129)
10. Interest during deferral period	<u>63,725</u>
Total	\$7,705,909

The ten items comprising the total proposed deferral amount are discussed below.

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 cost than is 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 an increase in sales for resale revenues, a decrease in costs during the review period, and is a benefit to customers.

5. Clearwater Revenues and Expenses. The Clearwater revenue and expense components are directly assigned to Idaho and are not subject to sharing. They are based on the difference between the Company's costs and revenues from serving Clearwater's Lewiston facility and the Company's normalized costs and revenues from serving Clearwater as established in the Company's last general rate case.

A contract that expired just before the start of the deferral period (July 2013 – June 2014) is included in base rates. This contract included the Company's purchase of Clearwater self-generation at PURPA avoided cost rates. Clearwater is currently a Schedule 25P customer; however, the revenues and expenses for the expired Clearwater contract will remain in base rates until new base rates are set in a general rate case.

In the review period, the Company recorded base revenues and expenses, with no offsetting Clearwater revenue and expenses separately stated. The net amount of Clearwater revenue and expenses included in base rates is \$2,320,289. This positive amount represents a cost to customers.

6. Resource Optimization - Gain on Natural Gas Resold. Resource Optimization results in a cost or benefit to customers 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. The PCA includes ninety percent of the Idaho jurisdictional share of the gain or loss on the sale of the gas transactions resulting from optimizing Company resources. The gain during the review period, shown as a negative amount, is a benefit to Idaho customers. Staff notes that this line item only shows one side of the transaction when the Company uses its power plants for economic dispatch, and should not be looked at independently from the entire optimization of Company resources.

Staff has verified that when the Company initially purchased the gas, the cost of producing electricity at the Company's natural gas plants (primarily the Coyote Springs and Lancaster facilities) was less than the cost of buying electricity on the open market to meet the Company's 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.

7. Idaho Retail Revenue Adjustment. The Idaho Retail Revenue Adjustment is a load change adjustment that removes the average, energy-related cost of production from PCA

calculations when load grows, as it has done in this case. When load declines, the adjustment adds back the average energy-related cost of production at the currently approved rate. The rate changed from \$26.63/MWh to \$26.97 on October 1, 2013. This rate is reestablished whenever base power supply costs are reset. The rate is multiplied by the change in load to produce the adjustment, excluding Clearwater Paper generation.

The PCA includes ninety percent of the total Idaho Retail Revenue Adjustment. In the review period, the Company experienced an increase in load. Thus, there is a negative adjustment. The negative amount represents a benefit to customers.

8. Net Transmission Revenue and Expense. In the 2009 general rate case, AVU-E-09-01, the Company proposed, and the Commission Staff agreed, to include transmission revenues and expenses in the PCA. The Company incurs third-party transmission costs when it buys power and has that power wheeled or delivered to its service area by a third party. The Company also incurs third-party transmission costs when it sells power and pays a third party to deliver that power. Third-party transmission revenues occur when the Company is the third party that delivers 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 more than the difference in transmission revenue, and the net of the transmission revenue and expense differences is a cost to customers.

9. Adjustment to RECs. In the deferral period, the Company made two adjustments to REC revenue, both of which favor customers. First, a \$123,048 revenue adjustment was made to reflect a correction in recording authorized Idaho REC revenues during 2013. Second, the deferral balance includes \$46,386 in REC revenue to reflect Idaho's share of the value of system RECs used by Washington. This \$46,386 is compensation from Washington to Idaho for Idaho's allocation of RECs from hydro upgrades used to meet the Washington Energy Independence Act requirements in 2012. The total –a negative \$157,129– is a benefit to customers.

10. Interest during Deferral Period. The Company calculates deferral balance interest using the methodology stated in Order No. 29323, Case No. AVU-E-03-04. Staff reviewed the Company's interest calculation and found it to be correct. The Company uses the Customer Deposit Rate to calculate interest on current year deferrals and on carryover balances from one year to the next. The Customer Deposit Rate for 2013 and for 2014 is 1%. Interest on the

deferral balance accumulates during the deferral period at the customer deposit rate. In this review period, the interest is a cost to customers.

C. Deferral Calculation Methodology

Staff reviewed the Company's overall deferral calculation methodology while focusing on two areas of potential concern: the Load Change Adjustment and the calculation of Clearwater deferral amounts.

This year's PCA reflects a base rate over-recovery due to change in load of \$4.6 million (credit to customers minus sharing), which is done through the Load Change Adjustment Rate (LCAR). The Company used Idaho jurisdictional energy-classified production expenses and base rate sales to calculate the LCAR in the last general rate case. This was appropriately applied to the difference in Idaho base-to-actual sales during the deferral period in the Company's Application. Staff believes the Company's use of jurisdictional sales to determine the change in load is superior to methods that use loads measured at generation to estimate over or under recovery through base rates. The Company's method eliminates inaccuracy caused by base-to-actual differences in line loss and jurisdictional allocation factors.

Clearwater Paper and the Company operated under a new contract during the deferral period. In reviewing the case authorizing the contract and its treatment in the PCA, Staff verified that the Company did not purchase any Clearwater self-generation instead of offsetting generation to meet its own load requirements. Staff also verified that Clearwater authorized self-generation amounts were not included in the authorized sales amounts used to calculate the Load Change Adjustment. Including these amounts would have resulted in double revenue recovery through the Load Change Adjustment.

Overall, Staff believes the Company's PCA methodology complies with all past Commission Orders. Staff also believes this methodology adjusts base rates so the Company only recovers its actual power supply costs, minus sharing.

D. Authorized-To-Actual Net Power Supply Expense Analysis

Staff analyzed the Company's actual net power supply expense as compared to expense embedded in base rates. This analysis was especially important due to nearly seven months of Colstrip Unit 4 forced outage that caused the Company to replace almost 420,000 MWh of low-

cost generation with other sources of generation, which in turn increased the deferral by about \$4 million. In light of the Colstrip outage, Staff considered whether Avista should receive recovery for increases in net power supply expenses due to the outage and whether the Company's net power supply expense was reasonable.

Staff examined the Company's data request responses and found no definitive evidence of Company, PPL Montana (facility operator), or third-party neglect or malfeasance causing the Colstrip outage. In addition, although there was insurance that covered property damage, the Company has no insurance that covers the cost of increased power supply expenses. Staff agrees with the Company that the Company's portfolio of resources and access to electricity markets should hold sufficient reserves to cover both forced and unforced outage. By design, Staff believes this is an appropriate form of insurance to cover these types of outage occurrences. Based on the evidence presented, Staff believes reasonably incurred increases in net power cost due to the Colstrip Unit 4 outage should be included for recovery in the Company's Application.

To determine reasonableness of overall net power supply expense, Staff compared actual versus authorized net power supply expense by category for each month of the deferral period. A summary of the deferral period is shown in the table below.

Expense Category	Authorized (\$ million)	Actual (\$ million)	Actual (\$/MWh)
Purchased Power (Acct 555)	\$88.2	\$196.7	\$31.37
Sales for Resale (Acct 447)	\$57.6	\$135.1	\$35.68
Thermal Fuel (Coal - Acct. 501)	\$31.0	\$22.2	\$16.74
CT Fuel (Gas - Acct. 547)	\$86.6	\$104.8	\$33.59

As seen in the table, the Colstrip outage reduced total coal cost while forcing the Company to increase its purchased power and natural gas generation costs when compared to those embedded in base rates. Because coal generation unit cost (\$16.74/MWh) is far less expensive than market (\$31.37/MWh) and natural gas generation (\$33.59/MWh), the Company incurred about a \$4 million in additional deferred PCA costs. Staff also analyzed market and natural gas unit costs on a monthly basis and believes that the Company made good decisions in trading off between generating with its natural gas combined cycle units and going to market to make up for lost coal generation capacity. The Company also gained additional benefits for

customers by economically dispatching resources when the Company had additional capacity and market prices were favorable. Based on its analysis, Staff believes that the Company's actual net power costs were reasonably incurred.

E. Other Surcharge Adjustments

The Company's PCA surcharge calculation includes two adjustments that are not normally included in the PCA deferral and rate calculation.

First, the Company adjusts the PCA surcharge to correct an error in how the Company allocates AECO natural gas supply volumes between its power supply operations and its natural gas operations. The error occurred from November 2011 through September 2013. Correcting the error shifts costs from the Company's Idaho natural gas operations to its Idaho electric operations. This cost reallocation impacts the Idaho PGA for the natural gas operations and the PCA for Idaho electric operations. Staff has reviewed the Company's journal entries and supporting documentation and has verified the calculation of the additional Natural Gas Transport Costs of \$505,265. Staff agrees with this adjustment and finds that the PCA surcharge is the proper place to reflect this increased cost to customers.

Second, the Company adjusts the PCA surcharge to include a \$713,000 credit for the 2013 earning test as proposed in Case No. AVU-E-14-05 (Application to Initiate Discussions About Extending Existing Rate Plan). In AVU-E-14-05, the proposed stipulation credits \$713,000 in electric revenue sharing money to customers through the PCA. A final order has not yet been issued in that case, but all parties to the case have signed the stipulation. Staff has audited the revenue sharing calculations. General Ledger numbers have been traced and verified. Based on the audit, Staff believes the \$713,000 amount is the proper portion of the electric revenue sharing dollars to be applied in this PCA to benefit customers.

F. Proposed PCA Rate Adjustments

The PCA rate is calculated by dividing the PCA surcharge amount by the total number of kilowatt-hours in the Company's latest revenue forecast for the twelve month period from October 1, 2014 through September 30, 2015. The PCA rate is then applied to each rate class based on the number of kilowatt-hours forecasted for each rate class on an even cents per kilowatt-hour basis.

The surcharge amount consists of revenue and expenses booked during the deferral period (July 1, 2013 – June 30, 2014) and expected to be booked in the future (July 1, 2014 through November 30, 2014). The surcharge amount also includes a Revenue Conversion amount that grosses up the surcharge amount to capture Commission fees and uncollectibles as they fluctuate with revenue. These calculations are as follows:

Booked Amounts (July 1, 2013 – June 30, 2014)

7,705,909	Deferral with Interest
505,265	Gas Transport Adjustment
(713,000)	Rebate of 2013 Earning Test (AVU-E-14-05)
(246,636)	Transfer Unamortized Balance – 2012 PCA
<u>(960,875)</u>	Unamortized Balance – 2013 PCA
6,290,663	

Expected Booked Amounts (July 1, 2014 – September 30, 2014)

19,000	Deferral interest (7/1/14 – 9/30/14)
1,369,881	Amortization including interest
<u>38,000</u>	Forecasted interest (10/1/14 – 9/30/15)
1,426,881	

Revenue Conversion Amount

38,704	Commission fees and uncollectibles
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Total

7,756,248	Surcharge Amount
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Rate Calculation

7,756,248	Surcharge Amount
<u>3,075,297</u>	Forecasted Sales
0.00252	PCA Rate (\$/kWh)

Staff's calculation of the PCA rate matches the rate proposed by the Company. Based on its analysis, Staff believes that the Company's calculation is accurate and that it complies with Commission's orders.

CUSTOMER RELATIONS

The Company's press release and customer notice were included in the application. Staff reviewed both documents and found two deficiencies where the press release and customer notice do not include information required by the Commission's Rules of Procedure (IDAPA 31.01.01). First, the Company's notice and press release do not inform customers that they may subscribe to the Commission's RSS feed to receive periodic updates via email about the case, as required by Rule 125.01.d. Second, the customer notice does not inform customers that written comments regarding the utility's application may be filed with the Commission, as required by Rule 125.04.

Staff notes that the Rules of Procedure were revised effective February 14, 2014. Staff recommends that the Company review the updated Rules of Procedure and include all required information in its customer notices and press releases in the future.

The Company included the customer notice with bills that it mailed to customers from August 11 through September 10, 2014. Customers have the opportunity to file comments on or before September 15, 2014.

As of September 15, the Commission has received nine comments. All oppose the proposed increase. Staff is concerned that customers are not generally aware of the distinction between general rate cases and other types of cases that may affect rates, such as the PCA. Staff notes that the filing of Avista's PCA case closely followed the announcement of a proposed settlement in Case No. AVU-E-14-05, pursuant to which the Company agrees not to seek new base rates before January 2016. The Company's PCA proposal, on the other hand, would increase rates beginning October 1, 2014. As a result, customers are understandably perplexed by what they perceive as contradictory messages. Staff recommends that the Commission recognize and address this confusion in its Order in this case.

STAFF RECOMMENDATION

Staff recommends that the Commission authorize the total deferral amount of \$7,705,909 (including interest) for recovery from customers.

Staff also recommends approval of Schedule 66 rates as filed in Exhibit A of the Company's Application to be effective on October 1, 2014. Staff further recommends that the Commission recognize and differentiate this PCA rate increase from base rate stability proposed in AVU-E-14-05.

Respectfully submitted this 15th day of September 2014.



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Deputy Attorney General

Technical Staff: Mike Louis
Kathy Stockton
Daniel Klein

i:umisc/comments/avue14.6kkmlklsmedk comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 15TH DAY OF SEPTEMBER 2014, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NOS. AVU-E-14-06, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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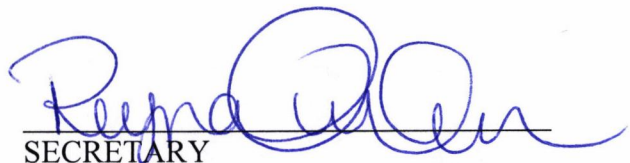
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