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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR AUTHORITY TO AMEND ITS ANNUAL POWER COST ADJUSTMENT (PCA) RATES.

CASE NO. AVU-E-15-07

COMMENTS OF THE COMMISSION STAFF

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Brandon Karpen, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 33368 on August 26, 2015, in Case No. AVU-E-15-07, submits the following comments.

OVERVIEW OF COMPANY APPLICATION

On July 31, 2015, Avista Corporation dba Avista Utilities filed its annual Power Cost Adjustment (PCA) Application. The Company states that annual net power costs for the period July 1, 2014 through June 30, 2015, are approximately $1.203 million lower than net power supply cost included in base rates. The Company, therefore, requests that the Commission approve a rebate rate to customers of 0.032¢ per kilowatt-hour (kWh) to be effective October 1, 2015. When this rebate is combined with expiration of the existing surcharge of 0.252¢/kw, customers will see a total rate reduction of 0.284¢/kw or 3.5%.

Avista's PCA mechanism is used to track changes in revenues and costs associated with variations in hydropower generation, power market purchases and sales, fuel costs, and other miscellaneous revenues and costs as compared to those embedded in base rates. If actual net power costs are greater than those recovered through base rates, customers are surcharged the difference. If net power costs are less, as is the case in this year's filing, then customers receive a rebate.

Because the PCA rate adjustments are spread on a uniform cents-per-kilowatt-hour basis the resulting percentage decrease in billed revenues varies by customer groups. The overall decrease in the PCA rate is 3.5%. Application at 6. Decreases by rate schedule are reflected in the table below.

Type of Service	Schedule	Billed Revenue % Increase
Residential	1	-3.20%
General Service	11, 12	-2.73%
Large General Service	21, 22	-3.42%
Extra Large General Service	25	-5.16%
Clearwater	25P	-5.17%
Pumping Service	31, 32	-2.87%
Street and Area Lights	41-49	-1.09%
Total		-3.48%

The PCA rate is combined with the Company's "base rates" to produce a customer's overall energy rate. According to the Company, the overall decrease is approximately 0.284¢ per kilowatt-hour. Of this decrease, 88% of the reduction is due to removal of last year's surcharge, while 22% is attributed to the rebate in this year's PCA.

STAFF REVIEW

Staff has thoroughly examined the Company's PCA Application by reviewing the following: (1) actual and authorized expense; (2) net deferral activity; (3) deferral calculation methodology; (4) actual to authorized net power supply expense (NPSE); (5) other adjustment; and (6) proposed PCA rate adjustments. The results of Staff's review is summarized below.

A. Actual and Authorized Expense Audit

Staff conducted an onsite audit during the week of August 31, 2015. Staff reviewed and audited the deferred balance amounts included in the current filing. Staff's review covered expenses incurred for the period of July 2014 through June 2015. 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 Sales for Resale 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, including the Natural Gas Transport Costs previously charged to natural gas customers. Staff verified that Avista's booked amounts and other calculations have been correctly reflected.

In reviewing the balancing accounts used to develop the PCA rates, Staff noted that the Company changed the calculated forecast amortization amounts, as shown on Ehrbar workpaper 2 of 5. The Company included forecasted amounts for June 2015, with amortization of $271,387 and interest of $1,960. These amounts represent unbilled revenue with associated interest for June 2015, and provide a reasonable refinement to the forecast portion of the proposed rate calculation.

Staff also verified all authorized amounts used to calculate the actual-to-authorized deferral. Staff believes the base amounts properly reflect rates established in Commission Order No. AVU-E-12-08.

B. Net Deferral Activity

The net deferral activity represents the Idaho jurisdictional share of the difference in power costs and associated revenue adjustments deferred under the PCA mechanism by Avista for the twelve months ending June 30, 2015. A component of the net deferral is the net change 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, (-$821,579 without interest; -$819,879 with interest) consists of the following items. An explanation of each item is provided below.

1. FERC Account 555 - Purchased Power	$28,999,977
2. FERC Account 501 - Thermal Fuel	(493,186)
3. FERC Account 547 - CT Fuel	1,480,207
4. FERC Account 447 - Sales for Resale	(27,283,443)
5. All Clearwater Revenues and Expenses	2,442,913
6. Resource Optimization - Gain on Natural Gas Resold	(1,471,020)
7. Idaho Retail Revenue Adjustment	(2,461,477)
8. Net Transmission Revenue and Expense	(373,431)
9. Adjustment to RECs	0
10. Spokane Energy Net Capacity Sale	(1,662,119)
11. Interest during deferral period	1,700
12. Total	($819,879)

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 (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. All Clearwater Revenues and Expenses. The Clearwater revenue and expense components are a direct assignment to Idaho, and are not subject to sharing. 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.

A contract that expired prior to the beginning of the deferral period (July 2014 – June 2015) is included in base rates. This contract included Avista'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 are still included in base rates, until such time as 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 $2,442,913. This positive amount represents a cost to customers.

6. Resource Optimization - Gain on Natural Gas Resold. Resource Optimization results in a cost or a 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. Ninety percent of the Idaho jurisdictional share of the gain or loss on the sale of the gas transactions resulting from optimizing Company resources is included in the PCA. 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 utilizes 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 Avista's natural gas plants (primarily the Coyote Springs and Lancaster facilities) was less expensive than purchasing electricity on the open market to meet its 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 is $26.97/MWh for the deferral period. 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.

Ninety percent of the total Idaho Retail Revenue Adjustment is included in the PCA. In the review period, the Company experienced an increase in load and therefore there is a negative adjustment. The negative amount represents a benefit 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, both the transmission revenues and transmission expenses were less than what is included in base rates. The net transmission revenue and expense is negative and is a benefit to customers.

9. Adjustment to RECs. In the deferral period, there were no adjustments to renewable energy credits, or RECs.

10. Spokane Energy Net Capacity Sale. In Order No. 28876, Case No. AVU-E-01-11, Avista proposed, and the Commission approved, to use the deferred credit on the Company's balance sheet related to the monetization of the Portland General Electric (PGE) contract credit as an offset to the power cost deferral balance to reduce the overall rate impact to customers. The Company amortized the PGE monetization credit balance over a 16-year period (1991-2014) to match the original revenue stream under the PGE contract. The monetization contract ended in 2014 and in 2015 the revenues from the capacity sale monetization reverted back to Avista. The capacity contract continues through 2016. This entry reflects the Idaho jurisdictional portion of those revenues for January 1, 2015 through April 21, 2015. The revenues for April 22, 2015 through June 30, 2015 are reflected in FERC Account 447, Sales for Resale.

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 verified the amounts included in the filing are 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

2014 and for 2015 is 1%. Interest on the deferral balance accumulates during the deferral period at the customer deposit rate. In the review period, the interest is a cost to customers.

C. Methodology Analysis

Staff conducted a review of the Company's overall deferral calculation methodology ensuring that it conforms to established methods and relevant past Commission orders.

Clearwater Paper and Avista have been operating 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 (LCA). Inclusion of these amounts would have resulted in double revenue recovery through the LCA.

Overall, Staff believes the Company's PCA methodology used in this Application complies with all past Commission Orders. Staff also believes that the method used provides an adjustment to base rates so that the amount recovered by the Company is no more or less than actual power supply costs paid by the Company, minus sharing.

D. Analysis of Net Power Supply Expense

Staff performed an analysis of actual net power supply expense (NPSE) as it compares with NPSE embedded in base rates. A summary of the deferral period is shown in the table below:

Actual versus Authorized Net Power Supply Expense Differences

Expense Category	MWh Change	MWh % Change	$/MWh Change	$/MWh % change
Acct 555 Purchases	2,652,094	95%	$1.58	5%
Acct 447 Sales	2,169,993	121%	$4.44	14%
Acct 501 Thermal Fuel	111,194	6%	($1.75)	-10%
Acct 547 CT Fuel	(44,707)	-1%	$1.94	7%

As seen in the table, prices for power purchased and sold were higher than those reflected in base rates. These increases align to increased Mid-C prices that rose between the test year used to determine base rates and the deferral period. In addition, the Company was able to take advantage of the higher prices by selling over 120 percent more power on the open market at prices 14% higher as compared to those assumed in base rates while minimizing the impact of higher prices to purchase additional power needed to meet load at prices only 5 percent higher.

Regarding fuel costs, the Company took advantage of 10 percent lower thermal fuel cost by increasing the amount of actual generation by 6 percent over those assumed in base rates. The Company also reacted to higher natural gas prices by slightly reducing the amount of natural gas-fired generation. After analysis, Staff believes that the Company's actual net power costs were reasonably incurred.

E. Other Adjustments

Included in the rebate calculation are two items that are not normally included in the PCA deferral and rate calculation. The first is an adjustment to correct an error related to the Production and Transmission Ratio used for jurisdictional allocation purposes. The Company inadvertently used a ratio of 35.29 percent instead of 34.76 percent approved in Case No. AVU-E-12-08. This resulted in a correction of $5,800 for the error made during the month of January 2015.

The Company also recorded a second adjustment due to a Commission approved settlement with BPA for its use of the Company's transmission system (Case No. AVU-E-12-08). As approved in Commission Order No. 32769, the Company is allowed to true-up any residual balances between those allowed in base rates and actual rebate amounts. As a result, the Company transferred the balance of this amount into the PCA deferral reducing it by $382,725.

PCA Rate Analysis

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, 2015 through September 30, 2016. It 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, 2014 – June 30, 2015) and expected to be booked from the end of the deferral period until rates are put into effect on October 1, 2015. It also includes a Revenue Conversion Amount that grosses up the surcharge amount to capture Commission fees and uncollectibles as they fluctuate with revenue.

Booked Amounts 7/1/14 thru 6/30/15	
Deferral with Interest	(819,879)
Transfer BPA Settlement	(382,725)
Transfer Unamortized Balance – 2013 PCA	342,830
Provision for Rate Refund	(713,398)
Unamortized Balance – 2014 PCA	2,722,945
	1,149,773
Expected Booked Amounts (7/1/15 thru 9/30/15)	
Deferral interest (7/1/15 – 9/30/15)	(3,012)
Amortization including interest	(2,116,286)
Forecasted interest (10/1/15 – 9/30/16)	(4,848)
	(2,124,146)
Revenue Conversion Amount	
Commission fees and uncollectibles	(4,887)
Total	
Total Amount [Rebate (-) Surcharge (+)]	(979,260)
Rate Calculation	
Total Amount [Rebate (-) Surcharge (+)]	(979,260)
Forecasted Sales (kWh)	3,103,499,000
PCA Rate ($/kWh)	(0.00032)

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 NOTICE AND PRESS RELEASE

Avista filed copies of its press release and customer notice with its Application. Staff reviewed both documents and determined that they comply with the Commission's Procedural Rule 125, IDAPA 31.01.01.125.

The customer notice was mailed with cyclical billings beginning August 6 and ending September 4. Customers have the opportunity to file comments on or before September 15, 2015.

CUSTOMER COMMENTS

As of September 14, 2015, the Commission has received 0 comments from customers.

STAFF RECOMMENDATIONS

Staff recommends that the Commission authorize the total deferral amount of ($819,879) (including interest) for recovery from ratepayers and approve Schedule 66 rates as filed in Exhibit A of the Company's Application to go into effect on October 1, 2015.

Respectfully submitted this 15th day of September 2015.

Brandon Karpen
Deputy Attorney General

Technical Staff: Mike Louis
Kathy Stockton
Daniel Klein

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 15TH DAY OF SEPTEMBER 2015, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-E-15-07, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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