

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF AVISTA CORPORATION FOR)	CASE NO. AVU-E-16-05
AUTHORITY TO AMEND ITS ANNUAL)	
POWER COST ADJUSTMENT (PCA) RATES)	ORDER NO. 33605
)	

On August 1, 2016, Avista Corporation filed its annual Power Cost Adjustment (PCA) Application. This year, Avista asks the Commission to approve a PCA rebate of 0.017¢ per kilowatt-hour (kWh) to be effective October 1, 2016. Under Avista's proposal, the PCA rate for all customers, including residential customers, would go up from the current rebate rate of 0.032¢ per kWh, or an *increase* of 0.015¢ per kWh (0.2%).

Avista claims that, because the PCA rate adjustments are spread on a uniform cents-per-kWh basis, the resulting increase will vary by rate schedule, with an overall increase of 0.2%. Avista states that the average residential customer using 918 kWh per month will see a 14¢ increase in their monthly bill (or 0.15%). The Company requests that the Commission approve the new PCA rates with an October 1, 2016, effective date.

On August 17, 2016, the Commission issued a Notice of Application and Notice of Modified Procedure that set a September 15, 2016 comment deadline. *See* Order No. 33571. Clearwater Paper Company intervened in the case. Staff filed timely written comments supporting the Company's Application. No other comments were received, and the Company did not reply.

THE APPLICATION

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. When actual net power costs are greater than those recovered through base rates, customers are surcharged the difference. However, if net power costs are less, as is the case in this year's filing, then customers receive a rebate.

The Company has proposed an overall rate *increase* to customers of approximately 0.2% as reflected by the schedule below:

Type of Service	Schedule	Billed Revenue % Increase
Residential	1	0.17%
General Service	11, 12	0.15%
Large General Service	21, 22	0.19%
Extra Large General Service	25	0.28%
Clearwater	25P	0.29%
Pumping Service	31, 32	0.15%
Street and Area Lights	41-49	0.06%
Total		0.19%

According to the Company, the overall increase is approximately 0.015¢ per kilowatt-hour.

THE COMMENTS

Staff examined the Company's PCA Application, and arranged their review under the following categories: (1) actual and authorized expenses; (2) deferral calculation methodology; (3) actual to authorized net power supply expense (NPSE); (4) balancing account calculations; and (5) proposed PCA rate calculation. Staff supports the Company's Application. Staff's comments are summarized below by issue.

A. Actual and Authorized Expense Audit

Commission Staff conducted an on-site audit in late August 2016. While there, Staff examined the deferred balance amounts included in the current filing. The on-site review covered expenses incurred for the period of July 2015 through June 2016. A Staff auditor examined a representative cross section of transactions included in the Purchased Power account (FERC 555), the Sales for Resale account (FERC 447), Thermal Fuel account (FERC 501), Combustion Turbine Fuel account (FERC 547), and the Resource Optimization account (FERC 557). Staff reviewed the other PCA calculations and amounts, including the natural gas transport costs. Additionally, Staff verified that Avista's booked amounts and other calculations were correctly reflected.

After its review, Staff concluded that the power cost transactions were reasonable at the time they were made. Staff did recommend that the Company separate authorized and actual net power costs in future PCA filings.

B. Deferral Calculation Methodology

Net deferral activity represents Idaho's share of the difference in power costs and associated revenue adjustments deferred under the PCA mechanism for the 12-month period ending June 30, 2016. The deferral is comprised of two components: (1) the difference between actual and authorized power supply expenses; and (2) a load change adjustment. After reviewing the amounts calculated by Avista, Staff concluded that the proposed deferral amount of \$478,103.00 was accurately calculated, reasonable under the circumstances, and meets the terms of the Commission's prior Orders.

Staff also reviewed Avista's overall deferral calculation methodology to ensure that it conformed to established and Commission-approved methods. Staff identified that the Company's methodology does follow all past Commission Orders. Furthermore, the result provides an adjustment to base rates similar to the amount recovered by Avista, and no more or less than the actual power supply costs paid, minus sharing.

Staff also performed an analysis of Avista's net transmission revenue and expenses. Staff found that during the period under review, both transmission revenues and expenses were less than what was included in base rates. The shortfall in transmission revenue was larger than transmission expenses resulting in a net cost to customers of \$3,312. After study, Staff concluded that Avista's calculations were accurate and reasonable.

Regarding the Company's Resource Optimization account, Staff verified that when the Company purchased gas, the cost of producing electricity at the Company's natural gas plants was less expensive than purchasing electricity on the open market. Conversely, Staff verified that when the Company resold gas and purchased electricity to meet native load, the resale and corresponding purchased electricity was the least expensive and most cost-effective alternative. Notably, the Company included renewable energy certificate (REC) revenue in the Resource Optimization account, which was greater than the amounts authorized in base rates by \$2,758,725. Staff recommended that the Company separate REC revenues and expenses outside the Resource Optimization account in future PCA filings.

C. Net Power Cost

Staff analyzed the Company's actual net power costs by comparing actual costs with amounts authorized in base rates. The largest factors contributing to the difference between actual and approved rates was a reduction in hydro generation associated with lower precipitation and an increase in gas-fired generation. However, because gas prices were lower

than assumed in base rates, the effect was minimal. Ultimately, Staff determined that the Company's actual power supply costs were reasonably incurred.

D. PCA Rate Calculation

The PCA rate is calculated by dividing the PCA revenue requirement by forecasted electricity usage during the next PCA billing period. Staff verified the components of the revenue requirement and forecast. Staff believes the Company's proposed rates are accurate and will fairly reimburse customers for over collection of actual net power cost (minus sharing) embedded in base rates.

Staff identified a minor error in the Company's residential bill impact calculations. The Company calculated 0.16% increase in the customer's bill from \$84.72 to \$84.86 using the new PCA rate. Staff believes the Company used incorrect residential base rates to calculate the average bill impact. Using current residential base rates, Staff calculated the impact to be an increase from \$83.80 to \$83.93, which still amounts to a 0.16% increase. This error does not affect the Company's request.

E. Other Adjustments

Staff observed that the Company used two methods for calculating interest in its amortization and deferral balancing accounts; amortization accounts use compound interest and the deferral accounts utilize a simple interest method. Citing consistency with other Idaho utilities, a more simplified process, and transparency, Staff recommended that the Company use compound interest for both accounts in future PCA filings. Staff notes that if the change in interest calculation method were made for this year's PCA it would result in a less than \$200 difference in the Company's calculations.

DISCUSSION AND FINDINGS

The Commission has jurisdiction over Avista and the issues presented in this case pursuant to Idaho Code, Title 61, and specifically *Idaho Code* §§ 61-307, 61-503 and 61-622. After reviewing the Application and the comments filed in this case, we find that the Company's Application is reasonable and adheres to our prior Orders regarding the method to be used for the recovery or reimbursement of deferred net power supply costs incurred by the Company. Thus, the Commission accepts the deferral balance of (\$516,032) and finds it fair, just and reasonable to approve a PCA *rebate* of 0.017¢ per kilowatt-hour with an October 1, 2016 effective date. We direct the Company to break out separate line items for actual and authorized REC revenue and expenses outside its Resource Optimization account. Finally, we find it reasonable to direct the


Company to utilize a compound interest calculation for both its amortization and deferral balancing accounts. These changes should provide clarity to future PCA filings.

ORDER

IT IS HEREBY ORDERED that the Company's Application is approved. The Company is authorized to issue a PCA rebate of 0.017¢ per kWh. The Company's proposed schedules are approved as filed, with new rates to take effect on October 1, 2016.

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 28th day of September 2016.



PAUL KJELLANDER, PRESIDENT

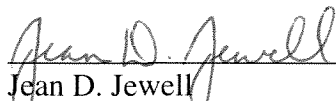


KRISTINE RAPER, COMMISSIONER



ERIC ANDERSON, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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