

Avista Corp.  
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January 27, 2011

Ms. Jean D. Jewell, Secretary  
Idaho Public Utilities Commission  
P. O. Box 83720  
Boise, Idaho 83720-0074

Dear Ms. Jewell:

Re: Case No. GNR-E-10-03, Reply Comments of Avista Corporation

Enclosed are an original and seven copies of the Avista Corporation Reply Comments in the above referenced case.

If you have any questions, please contact Ron McKenzie at (509) 495-4320 or Bill Johnson at (509) 495-4046.

Sincerely,

A handwritten signature in cursive script that reads "Kelly Norwood".

Kelly Norwood  
Vice President State and Federal Regulation

Service List  
Enclosure  
RM

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1 David J. Meyer  
2 Vice President and Chief Counsel of  
3 Regulatory and Governmental Affairs  
4 Avista Corporation  
5 1411 E. Mission Avenue  
6 P. O. Box 3727  
7 Spokane, Washington 99220  
8 Phone: (509) 489-0500, Fax: (509) 495-8851

9 BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

10 IN THE MATTER OF THE COMMISSION'S )  
11 INQUIRY INTO LOAD GROWTH ) CASE NO. GNR-E-10-03  
12 ADJUSTMENTS THAT ARE PART OF )  
13 POWER COST ADJUSTMENT ) REPLY COMMENTS OF  
14 MECHANISMS. ) AVISTA CORPORATION

15  
16 Avista Corporation, doing business as Avista Utilities (hereinafter Avista or Company),  
17 at 1411 East Mission Avenue, Spokane, Washington, respectfully files its Reply Comments in  
18 the above referenced case.

19 **REPLY TO THE INDUSTRIAL CUSTOMERS OF IDAHO POWER'S COMMENTS**

20 The Industrial Customers of Idaho Power ("ICIP") propose a load growth adjustment rate  
21 ("LGAR") that is based on the marginal cost of energy, and that is asymmetrical in its  
22 application, such that the rate only applies when loads increase, but not when loads decline.  
23 ICIP is the only party to this proceeding that is taking these positions. The other parties,  
24 including Commission Staff, all take the position that the LGAR should be the energy classified  
25 portion of the embedded production revenue requirement as established in the cost of service  
26 from each utility, and that the rate be applied symmetrically when loads increase, or decline.

27 In support of its asymmetrical argument ICIP contends that, "Avista and the other utilities  
28 have not demonstrated that (sic) what costs they are recovering through the LGAR at times of  
29 declining loads." As explained at the workshops and in Avista's opening comments, when retail

1 loads are lower than authorized loads, there is a lower net power supply expense to serve the  
2 decrease in load that is included in Avista's Power Cost Adjustment ("PCA"). Avista's retail  
3 revenue credit, or load change adjustment rate ("LCAR") is applied to the decrease in load to  
4 take into account the fact that there is a decrease in retail revenue that corresponds with the  
5 decrease in power supply expense. Absent the LCAR adjustment, customers would receive an  
6 undue benefit through the PCA, since the net reduction in power supply expense is directly  
7 related to a reduction in retail revenue. Application of the LCAR needs to be symmetrical to  
8 avoid passing through undue benefits when loads decline, and to avoid the over-collection of  
9 costs when loads increase.

10 Commission Staff agrees that the LCAR needs to be symmetrical. At page 5 of their  
11 opening comments they state: "The Staff believes that to remove over-recovered NPSE (net  
12 power supply expense) when load grows and to not restore under-recovered NPSE when load  
13 declines is unbalanced and unfair. Staff believes that fairness demands the symmetrical  
14 application of load growth adjustment methodology in growing and declining load situations."

15 The energy classified portion of production costs is an appropriate rate to use. Those  
16 costs are built into base rates. When loads increase or decline, those costs are either over-  
17 recovered or under-recovered, and that over- or under-recovery is what the utility experiences.  
18 In order for the PCA to produce a fair result, when loads increase, the over-recovered production  
19 costs need to be subtracted from the additional power supply costs incurred to serve the  
20 increased load. Likewise, when loads decline, the under-recovered production costs need to be  
21 added to the reduced power supply costs resulting from the reduced load. Marginal costs of  
22 power have nothing to do with the over-recovery or under-recovery of production costs that are  
23 built into base rates. Base rates do not recover marginal costs.

1           The arguments and positions of ICIP are without merit. A LCAR that is based upon the  
2 energy-classified portion of the embedded production revenue requirement as established in the  
3 cost of service for each utility is an appropriate rate to use and should be used symmetrically  
4 when loads increase or decline. Avista has had a symmetrical load adjustment in place since  
5 January 1, 2001. The Staff supported a symmetrical load adjustment when the PCA was  
6 modified back in 2001, and they support a symmetrical adjustment now. A symmetrical load  
7 adjustment is still essential to assure fairness to customers and the Company.

#### 8   **REPLY TO THE COMMISSION STAFF'S COMMENTS**

9           Avista agrees with Staff's comments except for their proposal to implement the new rate  
10 beginning the first of the month following the Commission's order. Avista proposed in its  
11 Opening Comments that its \$30.16 per megawatt-hour LCAR become effective on July 1, 2011,  
12 which is the start of the next twelve-month deferral period for Avista's PCA, unless a general  
13 rate case is decided before then. It is unlikely that a general rate case will be filed and approved  
14 prior to July 1, 2011, but it is appropriate to update the LCAR if and when rates are made  
15 effective from a general rate case. The LCAR, as well as the base level of loads and power  
16 supply costs that apply to PCA calculations, would, and should, all be updated in general rate  
17 cases, since base rates are reset as a result of the general rate case. Absent a general rate case  
18 being decided before July 1, 2011, Avista believes that the new LCAR should be implemented at  
19 the start of the next twelve-month PCA deferral period, which begins on July 1, 2011. This  
20 would allow for the rate to be consistently applied until the end of the deferral cycle, and avoid  
21 any inconsistencies that would be caused by changing the rate during the deferral cycle. Idaho  
22 Power Company is also requesting that their new rate be implemented at the start of their next  
23 PCA year, which for Idaho Power begins on April 1, 2011.

1 Dated at Spokane, Washington this 27<sup>th</sup> day of January 2011.

2 AVISTA CORPORATION

3 BY *Kelly Norwood*  
4 Kelly Norwood  
5 Vice President  
6 State and Federal Regulation  
7



CERTIFICATE OF SERVICE

**I HEREBY CERTIFY** that I have served Avista Corporation's Reply Comments in GNR-E-10-03, by mailing a copy to the following:

Commission Secretary  
Jean D. Jewell  
472 W. Washington Street  
Boise, ID 83702-5918

Mike Youngblood  
Idaho Power Company  
PO Box 70  
Boise, ID 83707-0070

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Lisa D. Nordstrom  
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Salt Lake City, UT 84111

Ted Weston  
Rocky Mountain Power  
201 S. Main Street, Suite 2300  
Salt Lake City, UT 84111

Dated at Spokane, Washington this 27th day of January 2011.

  
\_\_\_\_\_  
Patty Olsness, Rates Coordinator