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IDAHO PUBLIC  
UTILITIES COMMISSION

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

|  |                              |
|--|------------------------------|
| IN THE MATTER OF THE SUBMISSION OF THE ) | CASE NO. AVU-E-06- <u>05</u> |
| POWER COST ADJUSTMENT (PCA) STATUS )     |                              |
| REPORT OF AVISTA CORPORATION AND )       | DIRECT TESTIMONY             |
| REQUEST FOR RECOVERY OF POWER COSTS )    | OF                           |
| <u>DEFERRED THROUGH JUNE 30, 2006</u> )  | RONALD L. MCKENZIE           |

FOR AVISTA CORPORATION

1           **Q. Please state your name, the name of your employer and your business address.**

2           A. My name is Ronald L. McKenzie. I am employed by Avista Corporation at 1411  
3 East Mission Avenue, Spokane, Washington.

4           **Q. In what capacity are you employed?**

5           A. I am employed by Avista as Manager of Regulatory Accounting in the State and  
6 Federal Regulation Department.

7           **Q. Please state your educational background and professional experience.**

8           A. I graduated from Eastern Washington University in 1973 with a Bachelor of Arts  
9 Degree in Business Administration, majoring in Accounting. I joined the Company in September  
10 1974. I obtained a Master of Business Administration Degree from Eastern Washington  
11 University in 1989. I have attended several utility accounting and ratemaking courses and  
12 workshops. I have held various accounting positions within the Company. I have served in the  
13 State and Federal Regulation Department for the majority of my career with the Company.

14          **Q. What is the scope of your testimony in this proceeding?**

15          A. My testimony provides a status report of the accounting entries and account  
16 balances related to the Idaho Power Cost Adjustment (PCA) for the twelve months ended June  
17 30, 2006. The unrecovered deferral balance at June 30, 2006 is \$1,517,103. In this filing no  
18 change is being requested to the existing PCA Schedule 66 rate.

19          **Q. Are you sponsoring an Exhibit?**

20          A. Yes. I am sponsoring Exhibit No. \_\_\_\_ (RLM-1), consisting of the existing PCA  
21 tariff, Schedule 66.

22          **Q. Would you please show the change in the unrecovered deferral balance from**  
23 **June 30, 2005 to June 30, 2006?**

1           A.    Yes. The change in the unrecovered deferral balance from June 30, 2005 to June  
2 30, 2006 is shown below:

|   |                    |
|---|--------------------|
| 3           Unrecovered balance at June 30, 2005                                | \$5,935,324        |
| 4           Net Deferral Activity (July 2005 - June 2006)                       | -98,317            |
| 5           Amortizations Related to Surcharge Revenues (July 2005 – June 2006) | -4,599,432         |
| 6           Interest  | <u>279,528</u>     |
| 7           Unrecovered balance at June 30, 2006                                | <u>\$1,517,103</u> |

8           **Q.    Would you please explain the components listed above?**

9           A.    Yes. The net deferral activity amount of -\$98,317 represents the Idaho  
10 jurisdictional share of the actual power costs that were less than authorized costs and deferred  
11 under the PCA mechanism by Avista for the twelve months ended June 30, 2006. Mr. Storro  
12 discusses the components that make up this amount.

13           The amount for amortizations related to surcharge revenues of -\$4,599,432 represents the  
14 amount of surcharge revenues for the twelve months ended June 30, 2006 net of revenue-related  
15 expenses (commission fees and uncollectibles). The current level of surcharge rates of 2.448%  
16 was made effective April 15, 2005 by Order No. 29752 dated April 12, 2005 in Case No. AVU-  
17 E-05-1. At that time the surcharge rates were lowered to offset the increase in base tariff rates to  
18 recover costs associated with the purchase of the second half of the Coyote Springs 2 generating  
19 plant. The existing surcharge rates produce annual revenues of approximately \$4,268,000.

20           The \$279,528 interest amount represents interest for the twelve-month period July 1,  
21 2005 through June 30, 2006. Interest for the twelve-month period was calculated using the  
22 Customer Deposit Rate (July-December 2005 of 2%, January–June 2006 of 3%) on current year  
23 deferrals and the Customer Deposit Rate plus 2% on carryover balances from one year to the  
24 next. This interest rate methodology was approved by Order No. 29323 in Case No. AVU-E-03-  
25 04 dated August 21, 2003.

1           **Q. Is the Company proposing to change the surcharge rates at this time?**

2           A. No. The Company is not proposing to change the existing PCA surcharge rates at  
3 this time. The Company is proposing that the existing surcharge rates remain in place. While the  
4 annual amount of revenue under the existing surcharge of approximately \$4.3 million is greater  
5 than the unrecovered surcharge balance at June 30, 2006 of \$1.5 million, the unrecovered  
6 surcharge balance is expected to grow. Mr. Storro's testimony explains the reasons that actual  
7 power costs are expected to exceed authorized power costs and what the effect is forecasted to be  
8 on the deferral balance. However, should conditions turn out to be more favorable than  
9 expected, resulting in the deferral balance reaching zero at some point, the Company will make a  
10 filing to either zero-out the surcharge rates, or to continue or modify the rates depending upon  
11 actual and expected power supply conditions at the time. Should the surcharge rates not be  
12 modified prior to filing the next PCA status filing covering the July 2006 through June 2007  
13 twelve-month period, the surcharge rates will be reviewed as a part of that filing. Exhibit No.  
14 \_\_\_\_ (RLM-1) is a copy of the existing Schedule 66.

15           **Q. Is the Company continuing with its customer bill paying assistance programs?**

16           A. Yes. The Company has several programs available to assist customers with paying  
17 their bills. Avista's comfort level billing program offers customers the option of averaging their  
18 bills and paying the same monthly amount all year long in order to smooth out the seasonal highs  
19 and lows. Under the C.A.R.E.S. (Customer Assistance Referral and Evaluation Service)  
20 program, specially trained customer service representatives provide referrals to area agencies and  
21 churches for customers with special needs for help with housing, utilities, medical assistance, etc.  
22 LIHEAP (Low Income Heating Energy Assistance Program) is a Federal program aimed to help  
23 low income customers pay their electric and gas bills. These funds are distributed through local

1 agencies. Project Share is a voluntary contribution option allowing customers to contribute  
2 donations that are distributed through local community action agencies to customers in need.  
3 Idaho customers who have children, elderly or infirm persons in the household may qualify for  
4 the winter moratorium plan. From December 1 through February 28, customers are not required  
5 to pay their bills in full and can defer payment or make partial payments. In addition, the Winter  
6 Payment Plan provides for lower winter bill payments by allowing customers to make monthly  
7 payments equal to one-half of the levelized bill amounts, with balance in full or a new payment  
8 arrangement due by April 1<sup>st</sup>. The Company also works out payment arrangements with  
9 customers having difficulty paying their bills.

10 In addition, the Company has convenience options that help those who need flexibility,  
11 but are generally able to pay. APS, or automatic payment service (money is deducted from  
12 checking account automatically each month), is a good example. Other popular services include  
13 debit and credit card service, check-by-phone or over the web, preferred due date (the customer  
14 picks a more convenient date to pay than the one the Company states on the bill), and e-billing.

15 **Q. Does that conclude your prefiled direct testimony?**

16 **A.** Yes it does.

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| <u>DEFERRED THROUGH JUNE 30, 2006</u> )  | RONALD L. MCKENZIE           |

FOR AVISTA CORPORATION

I.P.U.C. No.28

Eighth Revision Sheet 66  
Canceling  
Seventh Revision Sheet 66

IDAHO PUBLIC UTILITIES COMMISSION  
Approved  
April 12, 2005  
Per O.N. 29752  
Jean D. Jewell Secretary  
Effective  
66 April 15, 2005

AVISTA CORPORATION  
d/b/a Avista Utilities

## SCHEDULE 66

### TEMPORARY POWER COST ADJUSTMENT - IDAHO

#### APPLICABLE:

To Customers in the State of Idaho where the Company has electric service available. This Power Cost Adjustment shall be applicable to all retail customers for charges for electric energy sold and to the flat rate charges for Company-owned or Customer-owned Street Lighting and Area Lighting Service. This Rate Adjustment is designed to recover or rebate a portion of the difference between actual and allowed net power supply costs.

#### MONTHLY RATE:

The energy charges of the individual rate schedules are to be increased by the following amounts:

|                   |                |
|-------------------|----------------|
| Schedule 1        | 0.163¢ per kwh |
| Schedules 11 & 12 | 0.190¢ per kwh |
| Schedules 21 & 22 | 0.145¢ per kwh |
| Schedules 25      | 0.103¢ per kwh |
| Schedule 25P      | 0.093¢ per kwh |
| Schedules 31 & 32 | 0.151¢ per kwh |

Flat rate charges for Company-owned or Customer-owned Street Lighting and Area Lighting Service are to be increased by the following percentage:

|                 |        |
|-----------------|--------|
| Schedules 41-49 | 2.448% |
|-----------------|--------|

#### SPECIAL TERMS AND CONDITIONS:

The rates set forth under this Schedule are subject to periodic review and adjustment by the IPUC based on the actual balance of deferred power costs.

Service under this schedule is subject to the Rules and Regulations contained in this tariff.

The above Rate is subject to increases as set forth in Tax Adjustment Schedule 58.

Issued January 19, 2005

Effective April 15, 2005

Issued by Avista Utilities  
By

Kelly O. Norwood – Vice President, State & Federal Regulation

*Kelly Norwood*

Exhibit No. \_\_\_ (RLM-1)  
Case No. AVU-E-06-\_\_\_  
Avista  
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