DECISION MEMORANDUM

TO:

COMMISSIONER KJELLANDER

COMMISSIONER SMITH
COMMISSIONER REDFORD
COMMISSION SECRETARY

COMMISSION STAFF

FROM:

DONOVAN E. WALKER

DATE:

JULY 6, 2007

SUBJECT:

AVISTA'S APPLICATION TO REVISE THE RESIDENTIAL AND

SMALL FARM RATE CREDIT - CASE NO. AVU-E-07-03.

On May 31, 2007, the Commission implemented a 0.144 cents per kilowatt-hour surcharge on an interim basis along with the elimination of Residential Exchange Credit pass-through from the Bonneville Power Administration (BPA). Order No. 30327. The Commission also issued a Notice of Modified Procedure seeking comments regarding the calculation of the surcharge. The Commission received comments from Staff and from two customers.

BACKGROUND

On May 21, 2007, BPA issued letters to PacifiCorp, Idaho Power, and Avista indicating that because of recent 9th Circuit Court of Appeals decisions¹ it was suspending the monthly payments or credits that it had been making pursuant to the Residential Exchange Program (REP) Settlements under the Northwest Power Act. Order No. 30327. As a result, on May 22, 2007, Avista Corporation (Company) filed a Tariff Advice with the Commission to revise the Residential and Small Farm Rate Adjustment Credit, Schedule 59. The revised tariff sheet proposed elimination of the Residential and Small Farm Energy Rate Adjustment Credit of 0.459 cents per kilowatt-hour and established a proposed surcharge of 0.144 cents per kilowatt-hour rate to recover the over-refunded exchange credit balance over a 12-month period.

The Company uses a balancing account for the receipt of REP benefits from BPA. At the end of April 2007 there was an over-refunded balance of approximately \$913,000 for

¹ Portland General Electric Co. v. Bonneville Power Admin., ___F.3d___, 2007 WL 1288786 (9thCir); Golden Northwest Aluminum, Inc. v. Bonneville Power Admin., ___F.3d___, 2007 WL 1289539 (9thCir).

Idaho customers. When the rate credit was established, it was projected that the balancing account would reach zero at the end of October 2007. The Company stated that because the Schedule 59 rate credit is a uniform cents per kilowatt-hour rate, and because the REP benefit payments from BPA are lower in the winter and higher in the summer, the result is the over-refunded balance stated above.

The Commission found good cause to act on the Company's filing in an expedited manner, and approved the elimination of the credit as well as the imposition of the requested surcharge to collect the over-refunded balance. Order No. 30327. The Commission approved the surcharge in order to bring the over-refunded balance back to zero. *Id.* The Commission ordered that the surcharge be approved on an interim basis subject to refund based on Staff's audit and investigation and subsequent Commission Order. *Id.* Staff was directed to audit the deferral balance amount, to review the assumptions and calculations leading to the surcharge rate, and to advise the Commission as to whether it is properly allocated, whether it is in the proper amount, and whether the recovery period is appropriate. *Id.* A separate Notice of Modified Procedure was issued setting forth a 30-day comment period for the purposes stated above and for public comment. Order No. 30328.

STAFF COMMENTS

Staff reviewed the information supporting the 0.144 cents per kilowatt-hour surcharge approved in Order No. 30327 and recommended that the methodology and data used in the calculation of the surcharge amount was appropriate. Staff stated that the surcharge could reasonably be expected to eliminate the negative balance in the BPA credit account during the projected 12 month time period.

Staff reported that there is the possibility of some rate groups paying more back through the surcharge than they received in overpayments from the BPA credit. This is the result of the credit and surcharge rate being based on a cents per kilowatt basis, and the varying pattern of seasonal usage for the different customer classes. Because credits were received for only part of a year, but the collections will occur throughout the year, the collections from some rate groups are projected to exceed the amount of excess credits received by that group, while other rate groups are projected to not fully repay the amount of excess credits paid to their rate group.

According to Staff's calculations, collections from Schedule 1 customers (residential) will be approximately \$10,000 more than the excess credits received by Schedule 1 customers,

while collections from Schedule 22 customers (large farm and residential) will be approximately \$8,000 less than excess credits received, and Schedule 32 collections (Irrigation) approximately \$2,000 less than excess credits received. Schedules 12 (small farm and residential) and 48 (non-street lighting) would have minimal differences.

Staff noted that the calculations above are based upon the Company's energy use projections, and that actual usage by rate group for the first 5 months of 2007 varied from the projections significantly. While the Company's projections are reasonably accurate for system-wide planning purpose, the projections for each individual rate group, especially on a monthly basis, appear to vary from actual use by significant margins. This variation between actual usage and projected usage for the five months for which such data was available was sufficient to increase or decrease the amount of imbalance in any rate group approximately threefold.

Consequently Staff recommended the surcharge be continued at the current rate. Staff also recommended that the Company track the balance of collections from the surcharge versus excess credits received by rate schedule, and provide a report to the Commission within 30 days of the termination of the surcharge regarding any significant over/under collection by customer class.

CUSTOMER COMMENTS

The Commission received comments from two customers of Avista, one from Hayden, ID, and one from Priest River, ID. The first customer stated, "A 9.5% rate increase is just not appropriate." They stated that they are on a fixed income and could not afford the rate increase. The customer suggested that Avista "pare down their salaries for the Exec. and hire someone who won't always be making costly mistakes."

The second customer stated, "It was shocking to read of your decision to take away the utility customers credit passed on by our electricity provider." This customer urged the Commission to reverse the elimination of the BPA credit, and stated, "the surcharge for this past winter's deficit can be absorbed by the reversal of the above ruling."

COMMISSION DECISION

Does the Commission wish to approve the surcharge of 0.144 cents per kilowatt-hour to continue until the over-refunded balance reaches \$0? (i.e., continue the interim surcharge imposed by Order No. 30327?)

If so, upon termination of the surcharge, does the Commission wish for the Company to provide an accounting of the credits paid to and collections received from customers by rate schedule, and to provide a recommendation for addressing any significant imbalances that may remain between credits and collections for any rate class?

Does the Commission wish to eliminate or make any other adjustment to the surcharge?

Donovan E. Walker