DECISION MEMORANDUM

TO: COMMISSIONER KEMPTON
COMMISSIONER SMITH
COMMISSIONER REDFORD
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: NEIL PRICE
DEPUTY ATTORNEY GENERAL

DATE: APRIL 9, 2009

SUBJECT: AVISTA CORPORATION'S APPLICATION FOR APPROVAL OF AN ELECTRIC DISTRIBUTION SERVICE AGREEMENT WITH EAST GREENACRES IRRIGATION DISTRICT, CASE NO. AVU-E-09-02

On February 2, 2009, Avista Corporation ("Avista" or "Company") filed an Application with the Commission seeking approval of its Electric Distribution Service Agreement with East Greenacres Irrigation District ("Greenacres").

On March 4, 2009, the Commission issued a Notice of Application and Notice of Modified Procedure and established a 21-day open comment period. Order No. 30739. Commission Staff was the only party to file written comments within the established comment period.

THE AGREEMENT

The Electric Distribution Service Agreement ("Agreement") entered into between Avista and Greenacres provides for the continuation of "United States Bureau of Reclamation ("Bureau" or "Bureau of Reclamation") energy over Avista owned and operated distribution facilities from Avista's Post Falls Substation to certain delivery points on the Greenacres system." Application at 1. The effective date of the Agreement is March 1, 2009 or the first day following an Order by the Commission granting approval of the Agreement. *Id.*

The Application stated that the Agreement is "unique, and therefore more appropriately provided under a special contract rather than a filed tariff." *Id.* at 2. Avista stated that the distribution rate charged by the Company is "consistent with distribution charges embedded in current Idaho retail rates" and the net revenues generated via the Agreement will serve as an offset to the Company's fixed costs. *Id.* In recent years, Avista has delivered approximately 3.1 million kWhs to Greenacres' pumping facilities at an annual rate of $8,157. *Id.* at 3.

The parties entered into the Agreement on January 30, 2009. *Id.* The Agreement does not contain a fixed termination date. *Id.* However, the parties contemplate that the Agreement will terminate contemporaneously with the occurrence of either of the following conditions: (1) the termination of the parties' Transmission Agreement; or (2) one year prior written notice submitted by either party. *Id.* The distribution charge recited in the Agreement is $3,622.77 per month, or $43,473.24 per year. *Id.* The Application stated that the charge was "derived from Avista's last cost of service study" and subsequent settlement adjustments and revenue increases associated with Case No. AVU-E-08-01 and Commission Order No. 30647. *Id.* at 3-4.

Avista stated that "the contract is non-discriminatory and is not unreasonably preferential." *Id.* at 4. The Company requested that its Application be processed under the Commission's Modified Procedure rules. *Id.* at 2.

STAFF COMMENTS

Staff reviewed the Agreement by utilizing Avista's cost-of-service study approved in its last general rate case, AVU-E-08-01, to verify the Company's rate calculations. Staff Comments at 2. Staff stated that Greenacres' annual distribution charge of $43,473 is calculated by determining its "Load Ratio Share" (Greenacres' annual energy consumption ÷ Idaho's normalized annual energy consumption) and applying that ratio, 0.0978%, to the cost of Idaho's distribution facilities, $44,451,166. *Id.*

Staff mentioned that the jurisdictional energy methodology employed by Avista is just "one of several methodologies that can be used to establish a facilities charge." *Id.* While it does not oppose the Company's use of an energy allocation methodology, Staff believes that "allocation of distribution facilities used by the irrigation district based on demand is more appropriate" because "the cost of distribution facilities is driven by demand rather than energy." *Id.* Staff discussed this issue with Avista and the Company agreed to work with Staff "to develop a demand-based rate calculation methodology for use in the future." *Id.* Staff also added that the necessary data for applying Avista's energy allocation methodology was more prevalent than demand data. *Id.* at 3.

Staff acknowledged that the energy based distribution agreement was mutually agreed upon and approved by both the parties. *Id.* Further, Staff believes that the general body of ratepayers will not be harmed by approval of this agreement and therefore recommends that the Commission approve the Agreement. *Id.*

COMMISSION DECISION

Does the Commission wish to approve Avista's Application for approval of its Electric Distribution Service Agreement with East Greenacres Irrigation District?

Neil Price
Deputy Attorney General

M:AVU-E-09-02_np2