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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF AVISTA)
CORPORATION'S ANNUAL POWER) CASE NO. AVU-E-12-06
COST ADJUSTMENT (PCA).)
)
) COMMENTS OF THE
) COMMISSION STAFF
)**

The Staff of the Idaho Public Utilities Commission, by and through its Attorney of Record, Neil Price, Deputy Attorney General, in response to the Notice of Application, Notice of Modified Procedure, and Notice of Intervention Deadline issued on August 21, 2012, Order No. 32622, submits the following comments.

BACKGROUND

On July 31, 2012, Avista Corporation ("Avista" or "Company") filed its annual Power Cost Adjustment ("PCA") requesting a Commission Order approving the rebate of below normal power costs deferred for the period of July 1, 2011 through June 30, 2012. The Company's Application proposes a customer credit of 0.090¢ per kilowatt-hour effective October 1, 2012.

Avista's PCA mechanism is used to track changes in revenues and costs associated with variations in hydroelectric generation, secondary market prices, thermal fuel costs, changes in power contract revenues and expenses, and other miscellaneous items.

The Company's Application outlines the power cost deferrals, including interest, for the July 1, 2011 through June 30, 2012 deferral period:

Deferrals (July 2011-June 2012)	\$(3,170,099)
Interest	(21,812)
PCA Deferral Balance as of June 30, 2012	<u>\$(3,191,911)</u>

Avista states that the proposed rebate is designed to pass through the deferrals for the period July 1, 2011 through June 30, 2012, as well as the unrecovered balance related to the July 1, 2010 through June 30, 2011 deferral period, and estimated interest during the recovery period of October 1, 2012 through September 30, 2013. The proposed 0.090¢/kWh PCA credit will replace an existing 0.072¢/kWh surcharge, a decrease of 0.162¢/kWh.

The Company proposed average decrease of 2.17% would vary by rate schedule as shown below.

Customer Group (Schedule)	Percentage Decrease
Residential (Schedule 1)	-1.86%
General Service (Schedules 11, 12)	-1.62%
Large General Service (Schedules 21, 22)	-2.09%
Extra Large General Service (Schedule 25)	-3.02%
Clearwater (Schedule 25P)	-3.25%
Pumping Service (Schedules 31, 32)	-1.85%
Street and Area Lights (Schedules 41-49)	-0.73%
Average	-2.17%

STAFF REVIEW

Audit Results

Staff reviewed and audited the amounts included in the deferral balance in the current filing. Staff's review covered expenses incurred for the period July 2011 through June 2012. Staff looked at a representative cross section of transactions included in the Purchased Power account (FERC 555), Thermal Fuel account (FERC 501), Combustion Turbine Fuel account (FERC 547) and the Power Sales Revenue account (FERC 447). Based on its review of these transactions, Staff concludes that

the various power cost transactions appear reasonable at the time they were made. Staff also reviewed the other PCA calculations and amounts. Staff finds the amounts recorded to be correct and recommends that they be included in the deferral balance as of June 30, 2012.

Net Deferral Activity

The net deferral activity represents the Idaho jurisdictional share of the excess power costs and associated revenue adjustments deferred under the PCA mechanism by Avista for the twelve months ending June 30, 2012. A component of the net deferral is the Net Decrease in Power Supply Costs, FERC Accounts 555, 501, 547, and 447. Along with the costs of serving load using Company-owned resources, these PCA accounts also include additional power purchase costs when market prices are lower than generation costs. Generation costs associated with off-system sales are offset by the revenue from those sales. The proposed deferral amount, (\$3,191,911), consists of the following nine items (an explanation of each item also follows):

1. FERC Account 555 - Purchased Power	\$40,772,828
2. FERC Account 501 - Thermal Fuel	(1,594,239)
3. FERC Account 547 - CT Fuel	(11,679,124)
4. FERC Account 447 - Sales for Resale	(28,339,101)
5. All Clearwater Revenues and Expenses	(6,087,025)
6. Resource Optimization - Loss on Natural Gas Resold	3,346,283
7. Idaho Retail Revenue Adjustment	1,281,440
8. Net Transmission Revenue and Expense	(871,161)
9. Interest during deferral period	<u>(21,812)</u>
10. Total	<u>(\$3,191,911)</u>

1. FERC Account 555 - Purchased Power. Purchased Power costs reflect 90% of the Idaho jurisdictional share of the difference in costs the Company incurred for power purchases in the review period compared to normalized purchased power costs included in base rates. In the review period, the Company incurred more purchased power costs than are included in base rates. The positive amount represents a cost to customers.

2. FERC Account 501 - Thermal Fuel. Thermal Fuel, primarily coal, is used to produce electricity. The amount is 90% of the Idaho jurisdictional share of the difference in costs the Company incurred for thermal fuel compared to the normalized amount included in base rates. During the review period the Company incurred lower coal costs than are currently included in base rates. The negative amount represents a benefit to customers.

3. FERC Account 547 - CT Fuel. Combustion Turbine (or CT) Fuel is natural gas burned in the Company's gas fired generators. This amount represents 90% of the Idaho jurisdictional share of the difference in costs the Company incurred for gas generator fuel compared to the amount included in normalized base rates. In the review period, the Company incurred less natural gas cost than is currently included in base rates. The negative amount represents a benefit to customers.

4. FERC Account 447 - Sales for Resale. Sales for Resale are long-term and short-term off-system sales. The negative amount represents 90% of the Idaho jurisdictional share of the increase in off-system sales revenues above the amounts included in base rates. This negative amount represents an increase in sales for resale revenues, a decrease in costs during the review period, and is a benefit to customers.

5. All Clearwater Revenues and Expenses. The Clearwater revenue and expense components are a direct assignment to Idaho. They are based on the difference in Clearwater costs and revenues (for its Lewiston facility) relative to the normalized Clearwater costs and revenues established in the Company's last general rate case. The negative net amount indicates that, during the review period, the cost of serving Clearwater was less than the amount included in base rates. This negative amount is a benefit to Idaho customers.

6. Resource Optimization - Loss on Natural Gas Resold. Resource Optimization amounts result when natural gas purchased in advance for use in generating plants is later sold because it is more cost effective to sell the gas and purchase electricity than it is to generate electricity with the gas. Ninety percent of the Idaho jurisdictional share of the gain or loss on the sale of the gas is included in the PCA. Staff notes that this line item only shows one side of the transaction when the Company utilizes its power plants for economic dispatch, and should not be looked at independently from the entire optimization of Company resources. When looked at in its entirety, Resource Optimization is a benefit to customers.

Staff has verified that when the Company initially purchased the gas, the cost of producing electricity at Avista's natural gas plants, primarily the Coyote Springs facility, was less expensive than purchasing electricity on the open market to meet native load. Furthermore, Staff has verified

that when the Company resold the gas and purchased electricity to meet native load, the resale of the gas and corresponding electricity purchased was the least expensive and most cost-effective alternative. The loss during the review period, shown as a positive amount, is a cost to Idaho customers.

7. Idaho Retail Revenue Adjustment. The Idaho Retail Revenue Adjustment has two components. First, the load change adjustment removes the average energy-related cost of Production from PCA calculations when load grows. When load declines, as it has in this case, the adjustment adds back the average energy-related cost of Production at the currently approved rate. The rate changed from \$30.16/MWh to \$27.85/MWh on October 1, 2011¹. This rate is reestablished whenever base power supply costs are reset. The rate is multiplied by the change in load to produce the adjustment.

The other retail revenue component is a customer credit associated with the purchase of Clearwater generation. Ninety percent of the total Idaho Retail Revenue Adjustment is included in the PCA. The amount is \$1,281,440. The positive amount represents a cost to customers.

8. Net Transmission Revenue and Expense. The Company proposed, and the Commission Staff agreed, to include transmission revenues and expenses in the PCA in the 2009 general rate case, AVU-E-09-01. Avista incurs third party transmission costs when it purchases power and has it wheeled or delivered to its service area by a third party. Avista also incurs third party transmission costs when it sells power and pays a third party to deliver it. Third party transmission revenues occur when Avista is the third party and is delivering power for others. Including transmission revenues and expenses in the PCA tracks the variability of these items. In the review period, the difference in transmission expenses was less than the difference in transmission revenue, and the net of the transmission revenue and expense differences is a benefit to customers.

9. Interest During Deferral Period. The Company calculates interest on the deferral balance using the methodology stated in Order No. 29323, Case No. AVU-E-03-04. Staff reviewed the Company's interest calculation and found the amounts included in the filing to be correct. The Company uses the Customer Deposit Rate on current year deferrals and on carryover balances from one year to the next. The Customer Deposit Rate for 2011 and for 2012 is 1%. Interest on the deferral balance accumulates during the deferral period at the customer deposit rate and is a benefit to customers.

¹ Case No. AVU-E-11-01/AVU-G-11-01 established the Idaho Retail Revenue Adjustment rate of \$27.85.

Additional Amounts

The proposed surcharge is designed to recover the net deferral and corresponding accrued interest for the period July 1, 2011 through June 30, 2012 of (\$3,191,911) plus the unrecovered balance related to the July 1, 2010 through June 30, 2011 deferral period, and interest during the recovery period of October 1, 2012 through September 30, 2013, as well as an amount based on the revenue conversion factor. The revenue conversion factor captures the amount of increased or decreased commission fees and uncollectibles that result from the collection or refund of the deferral balance as these items fluctuate with revenue. Therefore, in addition to the net deferral balance, the Company has included the following amounts in its rate calculation:

Expected unrecovered 2010 – 2011 deferral	\$108,635
Various Expected Interest Amounts	(3,786)
Revenue Conversion Amount	(11,477)
Total	<u>\$93,372</u>

The Staff has reviewed these additional estimated amounts, which are included only in the rate calculation to minimize next year's true-up. The Staff believes that they are reasonable. The amounts are trued-up in the following year's PCA.

The PCA Rate

The PCA credit rate is calculated by dividing the sum of the deferred amount and the additional estimated amounts by the amount of forecasted retail sales for the period that the rate will be in effect. $(-\$3,191,911 + \$93,372) / 3,441,832,000 \text{ kWh} = \$0.00090/\text{kWh} = 0.090 \text{ ¢/kWh}$.

Other Considerations

On August 10, 2012 Avista filed a Notice of Intent to file a general rate case. Under the Commission's Rules this rate case could be filed as soon as October 10, 2012. In anticipation of a rate increase that may result from a general rate case, the Staff proposes to hold back a portion of the decrease proposed by Avista in this case. The Staff proposes to allow the current surcharge of 0.072 ¢/kWh to expire and to not pass through any of the proposed rebate of \$3,098,539. The PCA rate associated with this proposal that would be effective October 1, 2012 is 0.000 ¢/kWh. Staff believes that holding back the credit balance will improve rate stability in the long-run. The Staff proposes that the unrefunded credit balance remain in the PCA deferral balance and accumulate interest until it is removed or rebated to customers in a future PCA.

On October 1, 2012 the Staff proposal results in the following average decreases due to the expiration of the current surcharge:

Customer Group (Schedule)	Percentage Decrease
Residential (Schedule 1)	-0.83%
General Service (Schedules 11, 12)	-0.72%
Large General Service (Schedules 21, 22)	-0.93%
Extra Large General Service (Schedule 25)	-1.34%
Clearwater (Schedule 25P)	-1.44%
Pumping Service (Schedules 31, 32)	-0.82%
Street and Area Lights (Schedules 41-49)	-0.32%
Average	-0.97%

CUSTOMER RELATIONS

Customer Notice and Press Release

The Press Release and Customer Notice included in Avista's Application meet the requirements of IPUC Rules of Procedure 125.04 and 125.05. IDAPA 31.01.01.125. The Customer Notice was mailed with cyclical billings beginning August 2, 2012 and ending August 31, 2012.

Avista filed its annual PCA (Case No. AVU-E-12-06) for electric recovery on July 31, 2012. Its Press Release covered four separate cases: the PCA (AVU-E-12-06), the PGA (AVU-G-12-05), the natural gas Energy Efficiency Tariff Rider Adjustment (AVU-G-12-06), and the Electric Energy Efficiency Tariff Rider Adjustment (AVU-E-12-07).

Also mentioned in the Press Release was that an Idaho State Tax deferral on income taxes that had been reducing rates for the past year as a result of the last rate case will expire on October 1, 2012 causing a slight increase in rates of 1.5%. However, even with that increase, if the Company's Application is approved, there would still be a slight decrease in electric rates.

Customer Comments

Customers were given until September 21, 2012 to file comments. As of September 13, 2012 two customers had commented. One customer mistakenly believed that Avista had requested an increase to its rates. The customer was notified by Commission Staff that the request in this electric PCA filing was for a 2% decrease. The other commenter applauded Avista for reducing rates during a time of economic hardship.

Financial Assistance for Paying Heating Bills

If approved, residential customers will see a small decrease in their electric rates. Staff reminds all customers who are struggling to pay utility bills that there is financial assistance available to qualified customers. Information regarding the federally-funded Low-Income Energy Assistance Program (LIHEAP) and local non-profit and other fuel funds such as Project Share in Avista's northern Idaho service territory can be obtained by calling the nearest Community Action Agency, Avista Utilities, the Idaho Public Utilities Commission, or the 2-1-1 Idaho Care Line.

STAFF RECOMMENDATION

Staff recommends that the Commission accept the audited deferral balance of (\$3,191,911) for the period July 1, 2011 through June 30, 2012 and defer this amount for future customer credit. Staff also recommends that the existing PCA surcharge rate of 0.072 ¢/kWh expire September 30, 2012 and that no other amount be set for recovery/rebate at that time. The Staff proposes a PCA rate of 0.000 ¢/kWh for the period October 1, 2012 through September 30, 2013.

Respectfully submitted this 21st day of September 2012.



Neil Price
Deputy Attorney General

Technical Staff: Keith Hessing
Kathy Stockton
Marilyn Parker

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CERTIFICATE OF SERVICE

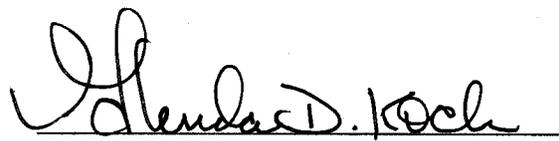
I HEREBY CERTIFY THAT I HAVE THIS 21ST DAY OF SEPTEMBER 2012, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. AVU-E-12-06, BY E-MAILING AND MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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