BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA CORPORATION'S APPLICATION TO ADJUST ITS ANNUAL POWER COST ADJUSTMENT (PCA) RATES	)	**CASE NO. AVU-E-14-06**
	)	**ORDER NO. 33140**

On July 30, 2014, Avista Corporation dba Avista Utilities (the Company) filed its annual Power Cost Adjustment (PCA) Application. The Company asks the Commission to let it recover $7.7 million in deferred net power costs through a 0.252¢ per kilowatt-hour (kWh) PCA surcharge to take effect on October 1, 2014.

On August 15, 2014, the Commission issued a Notice of Application and Notice of Modified Procedure that set a September 15, 2014 comment deadline. *See* Order No. 33095. Staff and intervenors Clearwater Paper Company and Idaho Forest Group filed comments. Eleven public comments were also filed, including comments by the Snake River Alliance and joint comments by Idaho Conservation League, Sierra Club, and Montana Environmental Forum. The Company then submitted a reply.

THE APPLICATION

The Company's PCA mechanism tracks changes in the Company's revenues and costs due to changes in hydropower generation, power market purchases and sales, fuel costs, and other miscellaneous revenues and costs. In this case, the Company attributes its increased net power supply expenses to:

- a forced outage at Colstrip Unit 4 that required the Company to buy replacement power at a higher wholesale price;
- 90% of the net expense of Palouse Wind flowing through the PCA as a surcharge deferral instead of being included in base rates; and
- a change in the Company's contract with Clearwater Paper that enables Clearwater to generate into its own load instead of selling its generation to the Company.

The Company says the proposed 0.252¢ per kWh PCA surcharge would collect: (1) deferrals from July 1, 2013 through June 30, 2014 (plus interest); (2) unrecovered balances for the July 1, 2012 through June 30, 2012 deferral period; (3) estimated interest during the period

the new PCA rate will be in effect (October 1, 2014 through September 30, 2015); (4) a correction to the misallocation of natural gas transport costs; and (5) a credit for the 2013 earnings test proposed in Case No. AVU-E-14-05. If approved, the Company's proposed, 0.252¢ per kWh PCA surcharge would be a 0.404¢ per kWh increase over the 0.152¢ per kWh rebate set in last year's PCA case.

The Company proposes to increase overall customer rates by 4.99%, as reflected in the schedule below:

Type of Service	Schedule	Billed Revenue % Increase
Residential	1	4.44%
General Service	11, 12	3.90%
Large General Service	21, 22	5.02%
Extra Large General Service	25	7.41%
Clearwater	25P	7.98%
Pumping Service	31, 32	4.37%
Street and Area Lights	41-49	1.66%
Total		4.99%

About 38% of the overall rate increase is due to the elimination of last year's PCA rebate. The remaining 62% increase occurs because the Company's power supply costs during the July 1, 2012 through June 30, 2014 deferral period were higher than the Company's power supply costs embedded in base rates.

THE COMMENTS

Comments were filed by Commission Staff, intervenors Clearwater and Idaho Forest Group, and 11 members of the public including the Snake River Alliance, Idaho Conservation League, Sierra Club, and Montana Environmental Forum. The Company also filed reply comments. The comments are summarized below.

I. Staff Comments

Staff supports the Company's Application. Staff thoroughly reviewed the Company's Application and audited and analyzed the Company's: (1) actual and authorized expenses; (2) net deferral activity; (3) deferral calculation method; and (4) other PCA surcharge adjustments (reflecting credit for the 2013 earning test as proposed in Case No. AVU-E-14-05, and correcting a gas allocation error); and (5) proposed PGA rates. Staff opines that the Company correctly

booked amounts to the PCA deferral account; calculated the base-to-actual deferral; adjusted base rates so the Company only recovers its actual power supply costs, minus sharing; and calculated its proposed PCA rate in a manner that complies with the Commission's Orders. Staff thus recommended the Commission: (1) authorize the Company to recover from customers the total deferral amount of $7,705,909 (including interest); and (2) approve Schedule 66 rates as filed in Exhibit A of the Application, effective October 1, 2014.

II. Intervenor and Public Comments

The intervenors and members of the public raise two main concerns about the Company's Application. First, they argue that the proposed PCA rates should not let the Company recover its cost to buy power to replace the generation it lost due to the Colstrip Unit 4 forced outage. Second, they argue that the Company relies too much on Colstrip and coal-fired generation with little risk to shareholders. In addition, intervenor Clearwater argues that it is paying more than its cost-of-service and that part of its PCA rates should be re-allocated to other classes. These issues and the Commission's corresponding findings are discussed below.

A. Colstrip Unit 4 Forced Outage

The Company's PCA proposal includes a $4 million increase in net power supply costs that the Company incurred to buy power to replace the generation it lost when Colstrip Unit 4 went offline from July 1, 2013 to January 23, 2014. The Company says the outage occurred after the unit's manufacturer performed a routine overhaul on the generator. The Company's third-party consultant conducted a Root Cause Analysis that concluded that Colstrip's operator "did everything according to standard industry practice . . . [but n]othing they did or could have done, could have prevented this failure."

Staff found no evidence that the outage was anyone's fault. Staff believes the Company reasonably incurred increased net power costs due to the outage and that the Company should recover those increased costs through the PCA.

Clearwater, IFG, SRA, ICL, Sierra Club, and MIEC disagree for three main reasons. First, they argue that the PCA adjusts for ordinary power supply expenses, and that extraordinary expenses from a non-recurring casualty event like the outage should not automatically flow to customers through the PCA. *See e.g.,* Clearwater Comments at 5-6, noting Staff's view in IPC-E-04-09 that extraordinary Valmy outage costs should not flow through the PCA, and the Commission's belief in that case that "the issue of replacement power resulting from the Valmy

plant outage . . . warrants further examination. . . . If necessary, any adjustment in power cost recovery resulting from the Valmy outage will be carried over to next year's PCA."). Second, they note that if the Colstrip outage costs are allowed in the PCA, ratepayers would not only pay those costs but also the fixed costs of a facility that was not used and useful, which unfairly allocates risk to ratepayers. Third, while the Company provided what appears to be an independent Root Cause Analysis, there has not been an opportunity in the compressed PCA docket to subject that Analysis to rigorous scrutiny and independent review.

For these reasons, the commenters propose that the Commission: (1) remove the Colstrip outage costs from the PCA, which leaves an adjusted 2014 PCA surcharge rate of .00119/kWh; and (2) prescribe further proceedings as needed to investigate whether some or all of the Colstrip outage costs should be recoverable; the Commission should only require ratepayers to pay for Colstrip outage costs if the Commission finds, after rigorous examination, that the Company's costs were reasonable and prudently incurred. As a less desirable alternative, the commenters say that if the Commission decides to consider the Colstrip outage costs in the PCA, then it should require a complete accounting of the expenses and adequate justification of their reasonableness.

In reply, the Company notes that the Colstrip outage is very different from the Valmy outage. Significantly, while Staff recommended further investigation of the Valmy outage because that outage appeared to be caused by operator negligence, Staff does not recommend further investigation of the Colstrip outage because nothing suggests that the outage may have been caused by Company or operator neglect. Indeed, Clearwater and IFG conducted discovery but point to no evidence suggesting a lack of prudency by the Company or a need for further review.

The Company also notes that over the last 15 years, Colstrip has had a solid performance over time for a plant of its size. The favorable performance in some years offsets the unfavorable performance in other years, with the benefits from favorable performance years flowing through to customers in the PCA.

The Company also disagrees that costs related to plant outages have generally been excluded from the PCA. The Company explains that when the Commission approved a PCA method change in 2001 that replaced computer-modeled costs with actual power supply costs, the Commission specifically noted: "Power supply expenses associated with thermal plant forced

outages, the Company states, are not included in the current PCA mechanism because the mechanism is based on modeled rather than actual generation." Order No. 28775 at 4. By changing the PCA method to include actual power supply costs instead of modeled costs, the Commission thus designed the PCA to include forced outage costs. The Company notes, for example, the 2009 and 2010 PCAs both included costs from the 2009 Colstrip outage.

Commission Findings: The PCA ensures that the Company recovers its prudently incurred actual power costs. We decline to exclude the Colstrip outage costs from the PCA for two reasons. First, actual power costs include the actual replacement power costs that a utility incurs to offset lost generation from a forced outage. *See* Order No. 30828, Case No. IPC-E-09-11 (revising the PCA mechanism to replace use of "actual modeled" data with "actual" data including actual forced outage costs). Second, there is no evidence of imprudence in this case. The Colstrip outage thus differs from the Valmy outage upon which the commenters rely. In the PCA case involving Valmy (Case No. IPC-E-04-09), we directed the parties to examine whether Valmy replacement power costs should be included as an adjustment in the next year's PCA. We only did this, however, because the undisputed evidence showed that the Valmy outage "was caused by an apparent failure to follow established safety procedures, a lack of proper supervision, and poor communication. . . ." Order No. 29506 at 5-7. In contrast, the evidence in this case is that Colstrip's operator "did everything according to standard industry practice" and "[n]othing they did or could have done could have prevented this failure." *See* Avista Reply Comments at 2 *quoting* third-party Root Cause Analysis. The evidence also shows that the replacement power costs were reasonable. *See e.g.,* Staff Comments at 8-9. Because the PCA captures the prudently incurred replacement power costs that a company incurs to offset lost generation from a forced outage, and because there is no evidence that the Company imprudently incurred the Colstrip replacement power costs, we decline to order further examination of those costs or exclude them from this year's PCA.

We appreciate the commenters' concerns about the Colstrip outage. We encourage them to scrutinize any future outages and to bring any evidence of imprudence to our attention.

B. Continued Reliance on Coal

Certain commenters express concerns about the extent to which the Company continues to rely on coal generation. For example, they express concerns about the continuing operation of Colstrip Unit 4 given its history of prolonged outages (the 2009 and 2013-2014

unplanned outages collectively took Colstrip offline for a year), the costs of existing and future regulatory compliance, and environmental lawsuits. They argue that customers should not bear the brunt of repeated operational problems at coal plants, and that such risk should shift to utility owners.

In reply, the Company argues that the future of Colstrip should not be debated in a PCA proceeding, which is designed to adjust changes in prior power supply costs.

Commission Findings: We find that the future of Colstrip and the extent to which the Company continues to rely on coal are beyond the scope of this proceeding, and we decline to address those issues here. The PCA is a cost tracker, and a PCA case narrowly focuses on whether a utility should increase or decrease its rates to reflect its tracked, actual power supply costs.

C. Clearwater Cost of Service

Clearwater notes that its new Electric Service Agreement (ESA) with the Company adds $2.3 million to the Company's proposed 2013/2014 PCA. Clearwater recommends that the Commission re-allocate part of Clearwater's share of the PCA costs to achieve a fairer rate spread among ratepayers. Clearwater notes that when Staff analyzed the new ESA it opined that Clearwater's rates would remain above cost-of-service (in that case, Staff estimated that the new ESA added $1.9 million to the Idaho jurisdiction, with Clearwater being assigned $1.4 million of that total). Further, Staff expected that rates would be re-allocated among customer classes in the next general rate case. Clearwater argues, however, that the Company's base rate settlement in AVU-E-14-05 precludes the Company from filing a general rate case until January 2016, and that it is unfair for Clearwater to subsidize other rate classes until the Company files a future rate case. Based on the cost-of-service results that the Commission relied upon to approve Clearwater's new ESA with the Company, Clearwater recommends that the Commission allocate $500,000 of Clearwater's PCA costs (i.e., $1.9 million assigned to Idaho jurisdiction from the new ESA minus the $1.4 million assigned to Clearwater) to the other rate classes either on a kWh basis or a per bill basis.

In reply, the Company notes that a cost-of-service study is only a guide to determining revenue requirement spread in a general rate case, and that while Staff's estimate showing Clearwater to be above cost-of-service was based on the Company's cost-of-service results from its last general rate case (AVU-E-12-08), other cost-of-service studies could have

very different results. More important, the Company notes that when it and Clearwater asked the Commission to approve the new ESA, their joint petition stated: "The Parties propose that the change in revenues and expenses associated with the new service agreement with Clearwater, as compared with the revenues and expenses included in the last rate case for Clearwater, be tracked through the PCA at 100%. . . ." Avista Reply at 5. Additionally, in the stipulation and settlement in the ESA case, the parties, including Clearwater, recommended the Commission approve the new ESA "while not agreeing on any particular cost of service methodology." *Id.* Finally, the Company observes that the Commission has already decided that costs tracked through the PCA are related to energy, that PCA rate spread should be calculated on an energy basis, and that any surcharge or rebate stemming from the PCA should be calculated on an energy, or uniform cents-per-kWh, basis. *See id. citing* Order No. 29602 at 48, Order No. 32080 at 6. The Company thus says its PCA meets the terms of the Commission's prior Orders.

Commission Findings: We are unpersuaded by Clearwater's argument that we should allocate $500,000 of its PCA costs to other classes to ensure that Clearwater does not pay more than its cost-of-service as adjusted to reflect the new ESA. Cost-of-service studies are a balance of art and economic principles, and are to be used as a guide to set rates. As the Company notes, an updated cost-of-service study could show very different results from those reflected in the cost-of-service study used in AVU-E-12-08. Further, in asking the Commission to approve the new ESA, Clearwater expressly agreed: (1) that the changes in revenues and expenses associated with the new ESA would be tracked 100% through the PCA; and (2) that the parties were not agreeing to any particular cost-of-service method (including that used in the old cost-of-service study from AVU-E-12-08).

DISCUSSION AND FINDINGS

The Commission has jurisdiction over the Company and the issues presented in this case pursuant to Idaho Code, Title 61, and specifically *Idaho Code* §§ 61-307, 61-503 and 61-622. After reviewing the Application and the comments filed in this case, we find that the Company's Application is reasonable and adheres to our prior Orders regarding the method to be used for the recovery or reimbursement of deferred net power supply costs incurred by the Company. We find that the Company's current rates are insufficient to enable it to reasonably recover its increased costs, and we accept the audited deferral balance of $7,705,909 (including

ORDER

IT IS HEREBY ORDERED that the Company's Application is approved. The Company is authorized to recover the total deferral amount of $7,705,909 (including interest) from customers. The Company's proposed schedules are approved as filed, with new rates to take effect on October 1, 2014.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 30th day of September 2014.

PAUL KJELLANDER, PRESIDENT

MACK A. REDFORD, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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