



Idaho Public Utilities Commission

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Paul Kjellander, Commissioner
Mack A. Redford, Commissioner
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Case No. AVU-E-14-06, Order No. 33140; AVU-G-14-04, Order No. 33133

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Avista annual electric adjustment is an increase; proposal for annual gas adjustment is a decrease

Boise (Oct. 1, 2014) – Electric rates for customers of Avista Utilities increase 4.2% effective today while, at the same time, state regulators are taking comments through Oct. 17 on an Avista application to decrease natural gas rates an average 2.1% effective Nov. 1.

The variable portion of electric and gas rates go up or down every year based on the previous year's variable costs to serve customers.

On the electric side, the annual Power Cost Adjustment (PCA) changes every year based on: 1) streamflows, 2) fuel costs, 3) the market price of power and 4) revenue and expenses related to contracts with power suppliers. On the gas side, the annual Purchased Gas Cost Adjustment (PGA) varies according to changes in wholesale market prices for gas and transportation and storage expense.

During years when variable expenses are less than what is already included in rates, customers get a one-year rate credit or decrease. During years when variable expenses are greater than anticipated, customers get a one-year surcharge. Avista's earnings, dividends to shareholders or employee salaries are not increased by the PCA or PGA. Variable electric and gas supply expense is kept in a deferred account audited by the commission, to ensure the expenses were necessary to serve customers and used only to pay for power and gas supply expense.

While the PCA and PGA recover variable costs of serving customers, fixed costs and some variable expense is included in base rates. The Idaho Public Utilities Commission last month approved a settlement to an Avista base rate proposal that freezes current base rates in place to Jan. 1, 2016 at the earliest. Variable rates plus base rates make up the vast majority of customers' overall rate.

Power Cost Adjustment (PCA)

Avista's PCA increase recovers \$7.7 million in power supply expense needed to serve customers that is not already included in rates. Further, a \$4.6 million credit that occurred as a result of last year's PCA decrease expired this year. For a residential customer who uses Avista's average of 930 kWhs per month, an average monthly bill would increase by \$3.76, from \$81.88 to \$85.64.

More than half of the PCA amount is attributable to \$4.1 million in power Avista had to provide to replace the power lost as a result of a forced outage at the Colstrip coal plant in eastern Montana from July 1, 2013 to Jan. 22, 2014. Intervenors in the case, including Clearwater Paper Corporation and Idaho Forest Group LLC, said that portion of costs should not be included in the PCA, pointing to a 2004 commission order that denied Idaho Power Company recovery of all the expenses related to an outage at the Valmy coal plant in Nevada.

However, the commission said the Valmy outage differed than the Colstrip incident. The undisputed evidence in that case showed that the Valmy outage was caused by an apparent failure to follow established safety procedures, a lack of proper supervision and poor communication, the commission said. In contrast, a third-party "Root Cause Analysis," determined that the Colstrip outage could not have been avoided.

Environmental groups, including the Snake River Alliance, Idaho Conservation League and Sierra Club, said the commission should take more time to do its own study to determine if the Root Cause Analysis is valid. However, the commission said that the independent study, plus discovery conducted by Clearwater Paper and the Idaho Forest Group, all determined that there is no evidence the company imprudently incurred the Colstrip replacement power costs.

The environmental groups noted that this is the second major outage at the Colstrip unit in the last five years and questioned the wisdom of continued reliance on Colstrip coal. The commission said the extent to which Avista continues to rely on Colstrip is beyond the scope of the PCA proceeding. "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," the commission said.

Clearwater Paper argued it is paying more than what it costs Avista to serve it and proposed that \$500,000 of its PCA charge be allocated to other customer classes. The commission denied Clearwater's request, noting that the cost-of-service study to which Clearwater points is based on a 2012 rate case and that an updated study could show different results.

Other contributors to the PCA increase included:

- The Palouse Wind project in eastern Washington came online during 2013, adding \$2.17 million to power supply expense.

- A 19% increase in retail electric demand resulted in an additional \$1.3 million in power supply expense.
- Clearwater Paper in Lewiston chose to use its own generation, which reduced anticipated purchases from Avista by about \$2.3 million.

Purchased Gas Cost Adjustment (PGA)

Avista proposes to decrease its annual PGA by an average of 2.1%, or \$1.6 million. If approved, the decrease to an average-sized residential or small-commercial customer will be about \$1.16 per month. Rates for large-commercial customers would also decrease by about 2.5%, though rates for a large interruptible customer would increase by 0.2%.

Avista's commodity cost for natural gas actually increased during the last year due in part to a colder-than-normal winter last year. However, that colder weather led to more use of natural gas by Avista customers, resulting in higher natural gas revenue that offset the higher commodity cost.

Avista will "hedge" about 35% of its estimated gas requirements for this PGA year, which means the company buys excess natural gas when market prices are lower and then stores it for use when market prices are higher.

Comments regarding Avista's proposed gas rate decrease are accepted via e-mail through Oct. 17 by accessing the commission's Website at www.puc.idaho.gov and clicking on "Case Comment Form," under the "Gas" heading. Fill in the case number (AVU-G-14-04) and enter your comments. Comments can also be mailed to P.O. Box 83720, Boise, ID 83720-0074 or faxed to (208) 334-3762.

The commission's orders along with comments filed by the company and other parties related to either the PCA increase or the PGA proposed decrease are available on the commission's Web site. Click on "Open Cases" under the "Electric" and "Gas" headings and scroll down to the above case numbers.

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