

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-17 ____

DIRECT TESTIMONY OF

PATRICK D. EHRBAR

REPRESENTING AVISTA CORPORATION

1 **I. INTRODUCTION**

2 **Q. Please state your name, business address and present position with Avista**
3 **Corporation ("Avista" or "Company").**

4 A. My name is Patrick D. Ehrbar and my business address is 1411 East Mission
5 Avenue, Spokane, Washington. I am employed by Avista as Senior Manager, Rates and
6 Tariffs in the State and Federal Regulation Department.

7 **Q. Would you briefly describe your educational background and**
8 **professional experience?**

9 A. Yes. I am a 1995 graduate of Gonzaga University with a Bachelors degree in
10 Business Administration. In 1997 I graduated from Gonzaga University with a Masters degree
11 in Business Administration. I started with Avista in April 1997 as a Resource Management
12 Analyst in the Company's Demand Side Management (DSM) department. Later, I became a
13 Program Manager, responsible for energy efficiency program offerings for the Company's
14 educational and governmental customers. In 2000, I was selected to be one of the Company's
15 key Account Executives. In this role I was responsible for, among other things, being the
16 primary point of contact for numerous commercial and industrial customers, including
17 delivery of the Company's site specific energy efficiency programs.

18 I joined the State and Federal Regulation Department as a Senior Regulatory Analyst
19 in 2007. Responsibilities in this role included being the discovery coordinator for the
20 Company's rate cases, line extension policy tariffs, as well as miscellaneous regulatory issues.
21 In November 2009, I was promoted to my current role. My primary areas of responsibility
22 include electric and natural gas rate design, customer usage and revenue analysis, and tariff
23 administration.

1 **Q. What is the scope of your testimony in this proceeding?**

2 A. My testimony addresses the accounting associated with the power cost
3 deferrals under the Energy Recovery Mechanism (“ERM”) approved by the Commission in
4 Docket No. UE-011595. I also explain what is contained in the monthly reports that are filed
5 with the Commission.

6 **Q. Are you sponsoring any exhibits?**

7 A. Yes. I am sponsoring Exhibit No. ____ (PDE-2), which consists of a copy of the
8 December 2016 ERM report for informational purposes.

9

10 **II. ACCOUNTING ASSOCIATED WITH ERM DEFERRALS**

11 **Q. Would you please describe the accounting associated with the Company's**
12 **ERM deferral mechanism?**

13 A. Yes. In his direct testimony Company witness Mr. Johnson discusses the
14 procedure to calculate the monthly variations between actual and authorized power supply
15 revenues and expenses.

16 Under the ERM deferral mechanism, monthly variations are accumulated until the
17 calendar-year deadband of \$4.0 million is exceeded. Once the deadband is exceeded, 50% of
18 the cumulative variation between actual and authorized net power supply costs between \$4.0
19 million and \$10.0 million is deferred if the deferral is in the surcharge direction, and 75% is
20 deferred if the deferral is in the rebate direction. Once the cumulative power supply cost
21 variance from the amount included in base rates exceeds \$10.0 million, 90% of the cost
22 variance above \$10 million is deferred for future surcharge or rebate.

1 When actual net power supply costs exceed authorized costs, entries are made to
2 record the deferral amount by crediting FERC Account 557.28 - Other Power Supply
3 Expenses, thereby decreasing recorded power supply expenses, and debiting FERC Account
4 186.28 - Miscellaneous Deferred Debits. If actual net power supply costs are less than
5 authorized costs in a given month, an entry is made to record the difference by debiting FERC
6 Account 557.28 - Other Power Supply Expenses, thereby increasing recorded power supply
7 expenses, and crediting FERC Account 186.28 - Miscellaneous Deferred Debits. An
8 accumulated debit balance in FERC Account 186.28 represents a surcharge balance, while an
9 accumulated credit balance represents a rebate balance.

10 **Q. How is interest recorded on the deferral balances?**

11 A. Interest is calculated pursuant to the Settlement Stipulation approved by the
12 Commission's Fifth Supplemental Order in Docket No. UE-011595, dated June 18, 2002.
13 Interest is applied to the average of the beginning and ending month balances in Account
14 186.28 net of associated deferred federal income tax. The Company's weighted cost of debt
15 is used as the interest rate. The interest rate is updated semi-annually and interest is
16 compounded semi-annually. The interest rate used for the period January 1, 2016 through
17 June 30, 2016 was 5.250%, the Company's weighted cost of debt at December 31, 2015. The
18 interest rate used for the period July 1, 2016 through December 31, 2016 was 5.212%, the
19 Company's weighted cost of debt at June 30, 2016.

20 **Q. How are income taxes accounted for under the deferred power cost**
21 **mechanism?**

22 A. The power cost deferral entries are not recognized in the determination of
23 taxable income for federal income tax purposes. Therefore, deferred federal income taxes are

1 recorded. FERC Account 283.28 – Accumulated Deferred Federal Income Tax reflects a
2 credit balance of 35% of the debit balance in Account 186.28, or reflects a debit balance of
3 35% of the credit balance in Account 186.28. When FERC Account 283.28 is credited,
4 Account 410.10 – Deferred FIT Expense is debited. Likewise, when FERC Account 283.28
5 is debited, FERC Account 410.10 is credited.

6 **Q. In 2016 what were the amounts deferred and the amount absorbed by the**
7 **Company?**

8 A. For the 2016 calendar year, actual net power costs were less than authorized
9 net power costs for the Washington jurisdiction by \$8,426,688. The deferral in the rebate
10 direction for 2016 amounted to \$3,320,016, which consists of 75% of the \$4.0 million to \$10.0
11 million sharing band (\$4,426,688 * 75%)¹. The Company absorbed \$5,106,672 in reduced net
12 power costs in 2016.

13 **Q. What was the total balance in the ERM deferral accounts at December 31,**
14 **2016, including deferrals that arose prior to 2016?**

15 A. The total balance in the ERM deferral accounts, including the 2016 rebate
16 recorded, was \$21,290,653, in a rebate direction.

17 Table No. 1 summarizes the activity in the ERM deferral accounts and the resulting
18 balance at December 31, 2016.

¹Interest was recorded in the amount of \$22,967 in addition to the \$3,320,016 in deferrals for a total deferral balance in the rebate direction of \$3,342,983.

Table No. 1:

Summary of Account 186280 and 182350 Surcharge/(Rebate)		
GL Account	Description	Activity
182350	Deferral Beginning Balance as of 01/2016	\$ (6,457,271)
	2015 Deferral Balance (incl interest) ¹ transferred 07/2016	\$ (11,732,007)
	2016 Current Year Amortization ²	\$ 640,834
	Interest on balance and activity	\$ (399,226)
	Ending Recoverable Deferral Balance	\$ (17,947,670)
186280	Current Year Deferral (2016)	\$ (3,320,016)
	Interest (2016)	\$ (22,967)
	ERM Deferral for 2016	\$ (3,342,983)
Total Balance 12/31/2016		\$ (21,290,653)

Q. Under the ERM, what is the provision for a rebate or surcharge of the ERM balance to customers?

A. A rate adjustment trigger was originally set at 10% of base revenues per the Settlement Stipulation and approved by the Fifth Supplemental Order in Docket UE-011595. The multiparty settlement stipulation in Docket No. UE-120436 reduced the rate adjustment trigger from 10 percent of base revenues to \$30 million. However, as indicated in footnote 2, rebates of ERM balances (as approved by the Commission) have occurred separate from this provision.

III. ERM MONTHLY AND ANNUAL REPORTS

Q. Would you please describe the monthly reports that the Company submits to the Commission?

1 A. Yes. The Company submits monthly reports to the Commission, Public
2 Counsel, and the Industrial Customers of Northwest Utilities that include the monthly power
3 cost deferral journal entries together with backup work papers and other supporting
4 documentation. The cover letter to the monthly report contains a brief explanation of the
5 factors causing the variance between actual and authorized power costs. The beginning of the
6 month account balances, the recorded activity within the accounts, and the ending month
7 account balances are shown. The January and July reports contain the supporting work papers
8 for the semi-annual updates of the weighted cost of debt used in the interest calculations. The
9 monthly reports also include any new power supply contracts of one-year or longer, entered
10 into during the month. The December 2016 report is attached for informational purposes as
11 Exhibit No. ____ (PDE-2).

12 **Q. What are the requirements associated with the annual filing to review**
13 **deferrals?**

14 A. The Company is required to make an annual filing, on or before April 1 of each
15 year, regarding the power costs deferred in the prior calendar year under the ERM. The filing
16 consists of testimony, exhibits, and supporting documentation.

17 **Q. What is the review period for the annual ERM filing?**

18 A. The Commission Staff and other interested parties have the opportunity to
19 review the deferral information during a 90-day review period ending June 30th each year.

¹ Represents deferral activity for January 2015 through December 2015.

²As a part of the Settlement Stipulation approved by the Commission in Docket Nos. UE-140188 and UG-140189, Avista was authorized to rebate to customers approximately \$8.2 million during 2015. Approximately \$8.0 million was passed back to customers during 2015. That rebate was set to expire on December 31, 2015, however, in Docket No. UE-152406, the Commission extended the rebate for an additional 11 days (January 1-January 11, 2016) to coincide with the effective date of the Company's 2015 general rate case for approximately \$640,000.

1 The 90-day review period may be extended by agreement of the parties participating in the
2 review, or by Commission order.

3 **Q. When was the last annual ERM filing addressed by the Commission?**

4 A. The annual ERM filing covering the 2015 calendar year was filed March 30,
5 2016 in Docket No. UE-160357. Order No. 01 was issued in that Docket on June 23, 2016,
6 and the Commission found that the power cost deferrals for 2015 were properly calculated
7 and recorded.

8 **Q. Have the 2016 ERM calculations and accounting entries been made in a**
9 **manner consistent with the ERM methodology approved by the Commission?**

10 A. Yes.

11 **Q. Does this conclude your pre-filed, direct testimony?**

12 A. Yes, it does.