

Agenda Date: August 26, 2010
Item Number: A1

Docket: U-101206
Company: Avista Corporation

Staff: E.J. Keating, Regulatory Analyst

Recommendation

Issue an order authorizing Avista Corporation (Avista or company) to credit the demand side management (DSM) balances with the refunds from certain disallowed miscellaneous contributions, and unexpended environmental remediation funds, in Docket U-101206 as requested.

Background

On July 9, 2010, Avista filed with the Washington Utilities and Transportation Commission (commission) an accounting petition pursuant to WAC 480-07-370, requesting an order authorizing the accounting treatment for refunds related to certain disallowed expenses in the amount of \$135,981 and to unexpended environmental remediation funds in the amount of \$517,542. Avista requests authorization to apply (credit) the refunds to the DSM tariff rider balances.

(1) Disallowed Expenses – On January 27, 2009, the Office of Public Counsel filed a Petition for Judicial Review in Thurston County Superior Court of a prior commission Order (Docket Nos. UE-080416 & UG-080417). On December 18, 2009, the Superior Court affirmed the decision of the commission, with the exception of disallowing approximately \$92,084 in miscellaneous contribution expenses¹. Following the conclusion of the case, Avista identified an additional \$38,000 in expenses it believed to be disallowed based on the court's decision. These additional expenses are in current rates. The expenses to be refunded are: (a) Electric-\$42,989, (b) Gas-\$87,096, plus interest, for a total of \$135,981.

(2) Plant Sale – Unused Environmental Remediation Funds – In May of 2000, Avista sold its 17.5 percent ownership share in the Centralia power plant to TransAlta. The commission approved the sale and treatment of the gains associated with Avista's 15 percent share of the Centralia plant and the 2.5 percent share of the Centralia plant Avista acquired from Portland General Electric. As ordered, funds from both sales were split the following way:

- Net Book Value - 100% Shareholders
- Accumulated Depreciation - 100% Ratepayers
- Gain on Sale - 50% Ratepayers / 50% Shareholders

¹ State of Washington Thurston County Superior Court, Case No. 09-2-0017-2

The bulk of the gain (\$33 million) was returned to customers via a bill credit as ordered by the commission in Docket UE-991606. The commission also approved a netting of any residual balances resulting from differences in projected volumes and/or projected interest to the DSM tariff rider. There was a residual balance of \$174,000 resulting from an over refund that was applied to the DSM tariff rider.

The sale of the Centralia power plant included the sale of a coal mine. As part of the sales agreement, PacifiCorp held \$3,000,000 of the net proceeds of the mine sale price for potential environmental claims at the mine, until (a) a good faith belief that such environmental claims at the mine have finally been settled, or (b) May 30, 2010. Since no further material actions are expected for potential environmental remediation, remaining funds of \$679,840 were refunded. Avista requests that its customer's portion of the refund derived using the original allocation of the power plant sale of \$517,542, be credited to the electric DSM tariff rider.

Discussion

After review of the petition staff believes Avista's proposed accounting treatments for the refunds are reasonable and consistent with prior treatment in similar situations. Crediting the DSM accounts rather than having separate electric and gas bill credits is a practical approach, because of the small amount of individual refunds involved. Crediting the DSM accounts will help mitigate future rate increases associated with the DSM tariff riders by lowering the balances approximately 34 percent for electric and 3 percent for gas. As of June 30, 2010, electric DSM balances were negative by \$1,659,378. Gas DSM balances were underfunded by \$3,146,389.

The combined refunds are as follows:

	<u>Electric</u>	<u>Gas</u>
Environmental Remediation Funds	\$517,542	\$ 0
Disallowed Expenses	\$ 42,989	\$87,096
Interest (on disallowed expenses only)	<u>\$ 960</u>	<u>\$ 4,937</u>
Total	<u>\$561,491</u>	<u>\$92,033</u>

Conclusion

Given the comparable treatment from previous cases, and the administrative burden of a bill credit, staff recommends the commission issue an order authorizing Avista to credit the DSM rider balances with the refunds from certain disallowed miscellaneous contributions, and unexpended environmental remediation funds, as requested in the petition in Docket U-101206².

² A one-time refund in the form of a bill credit would be approximately \$1.37 per electric customer and \$0.78 per gas customer.