## Bench Request No. 13

The filed PCAM appears to be very similar in most material respects to Avista Corporation's Energy Recovery Mechanism (ERM). However, we note a difference in the methodology for calculating power cost deferrals between the proposed PCAM and the ERM which features a retail revenue adjustment.[1]

Please explain the rationale for the chosen deferral calculation methodology without the retail revenue adjustment as used in Avista's ERM and explain the advantages and other considerations in the determination of the selected approach.

## Stipulating Parties' Response

Like Avista's energy recovery mechanism (ERM), the proposed power cost adjustment mechanism (PCAM) for Pacific Power & Light Company (Pacific Power or Company) accounts for variances in retail sales revenues in its operation. The PCAM, however, uses a different approach than Avista's ERM. The PCAM accounts for actual retail sales revenues in its calculation of the base net power costs (NPC) collected through customer rates. In contrast, the ERM applies a separate revenue adjustment after calculating the variance between base NPC (unadjusted for actual retail revenues) and actual NPC.

In the PCAM, Pacific Power calculates the variance (NPC Variance) between Washington-allocated base NPC (Base NPC), *adjusted for actual retail sales*, and Washington-allocated actual NPC (Actual NPC). There are two steps to adjust Base NPC for actual retail revenues in the PCAM. First, the Company calculates NPC in rates on a unit-cost basis (*i.e.,* dollars per megawatt hour) by dividing Washington-allocated NPC by Washington sales at meter, using the values for both set in the Company's most recent general rate case. This produces the portion of Pacific Power's current rates related to NPC (NPC Rate Component).

Second, the Company multiplies the NPC Rate Component by actual Washington sales at meter (Actual Sales). This method captures the variance between the sales revenue level established in the most recent general rate case and actual sales revenue. If actual sales are greater than the level established in a general rate case, NPC-related revenues will be higher, thus reducing the NPC Variance. If actual sales are less than the level established in a general rate case, NPC-related revenues will decrease, thus increasing the NPC Variance.

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[1] *See WUTC v. Pacific Power & Light Company,* Docket UE-140762 *et al.,* Order 08, ¶¶ 115-116 (March 25, 2015).

The ERM compares NPC in rates, _unadjusted for actual retail sales_, to actual NPC. Therefore, the ERM includes a revenue adjustment to account for variations in actual retail revenues by comparing actual sales volumes (ERM Actual Sales) to the sales volumes established in rates (ERM Base Sales) and multiplying the difference by the NPC Rate Component.