

Agenda Date: July 16, 2009  
Item Number: A1

**Docket:** UE-090452  
Company: Avista Corporation

Staff: Danny Kermode, Regulatory Analyst

### **Recommendation**

Issue an order in Docket UE-090452 deeming the energy recovery mechanism deferrals for calendar year 2008 as prudently incurred.

### **Discussion**

On March 27, 2009, Avista Corporation (Avista or company) filed its energy recovery mechanism (ERM) deferral entries for calendar year 2008, as required under the settlement stipulation approved by the Utilities and Transportation Commission (commission) in Docket UE-011595 and clarified in Docket UE-030751. The purpose for the annual filing is to allow both the commission and interested parties no less than 90 days to audit and review the prudence of the ERM deferral entries for the prior calendar year. The 90-day period ended June 30, 2009.

During 2008, Avista's actual net power costs were \$14.5 million higher for Washington than the authorized net power costs provided in rates. Under the terms of the ERM, the first \$4 million of net power supply costs above the authorized level is absorbed by the company. The next \$6 million of excess power supply costs are shared evenly by rate payers and the company, each responsible for fifty percent of the excess costs up to \$10 million. For amounts over \$10 million, ninety percent of excess costs are deferred for recovery from rate payers and 10 percent absorbed by the company. Of the total \$14.5 million excess costs for 2008, \$7,048,583 was deferred and \$7,449,843 was absorbed by the company.

The derivation of the dead band amounts are shown below in Table 1.

<b>2008 Deferral Computation</b>				
<b>Dead Band</b>	Company	Deferral	Total	Cumulative
<b>0-\$4M</b>	4,000,000	0	4,000,000	4,000,000
<b>&gt;\$4M - \$10M</b>	3,000,000	3,000,000	6,000,000	10,000,000
<b>&gt;\$10M</b>	449,843	4,048,583	4,498,426	14,498,426
<b>Total</b>	7,449,843	7,048,583	14,498,426	

Table 1

The primary factors affecting power supply expenses during 2008 are shown in Table 2 below.

**Factors Contributing to Increased Power Supply Expense  
Washington Allocation**

<b>Lower Hydro Generation</b>	\$1,228,333
<b>Increased Gas Fired Generation and Fuel Costs</b>	585,311
<b>Increased Generation and Fuel Costs for Colstrip</b>	1,446,520
<b>Increased Generation and Fuel Costs for Kettle Falls</b>	4,899,904
<b>Increase in Mid-Columbia Contracts Expense</b>	1,978,589
<b>Decrease in Retail Loads</b>	1,370,478
<b>Increased Market Prices and Contract Costs</b>	2,989,291
<b>Total Expenses Above the Authorized Level</b>	<b>\$14,498,426</b>

Table 2

Customers are currently paying a surcharge to recover excess deferred power supply costs and that surcharge will not change with this filing. Under current conditions, the company estimates that the deferral balance will reach zero in December 2009.

No other persons or parties filed comments with the commission during the review period.

**Conclusion**

Staff has completed its review and, finding no issues and absent an interested-party request to the contrary, recommends the commission issue an order deeming the energy recovery mechanism deferrals for calendar year 2008 filed in Docket UE-090452, as prudently incurred.