

Agenda Date: May 9, 2013
Item Number: A1

Docket: UE-130536
Company Name: Avista Corporation

Staff: E.J. Keating, Regulatory Analyst

Recommendation

Issue an Order authorizing the accounting treatment for transmission revenues associated with a settlement between Bonneville Power Administration and Avista Corporation, and Reardan wind development costs outlined in the Accounting Petition filed by Avista Corporation in Docket No. UE-130536.

Background

BPA/Avista settlement

In December 2012, Avista Corporation (Avista or company) reached a settlement with the Bonneville Power Administration (BPA) regarding the use of Avista's transmission system.

Avista and Bonneville's transmission systems interconnect at various points in eastern Washington. Avista discovered that Bonneville had sold transmission capacity for wind projects totaling 336 MW that followed a single Bonneville line with a rated capacity of only 203 MW. As a result BPA needed to use Avista's transmission system for capacity support.

The settlement agreement between BPA and Avista is intended to compensate Avista for BPA's use of the company's transmission system for the period 2005 through 2012, and to establish BPA's payment for its ongoing use of Avista's transmission system through September 30, 2042.

The settlement agreement provides approximately \$7.604 million to Avista for its Washington operations for the 2005 through 2012 period and an ongoing payment of approximately \$2.1 million per year through 2042.

Reardan Wind Project

In order to meet its obligations under the Energy Independence Act, in May 2008, Avista purchased the Reardan Wind Project (Reardan or Project) from Energy Northwest for \$2.28 million. Energy Northwest expenditures were for land rights and studies to determine the preliminary design and projected output for the site. Avista compared the Project against 29 competing proposals for renewable energy and determined Reardan was the company's least-cost option for securing renewable resources.

After Avista purchased the Project in 2008, it incurred additional costs to optimize the Project and ready it for construction.

Later in February 2011, as the result of new information surrounding alternatives to the continuation of the Reardan project, Avista issued a Request for Proposals (RFP) for qualifying renewable energy for delivery on or before December 31, 2012. As a result of the RFP, Avista determined that a 30-year Power Purchase Agreement (PPA) with Palouse Wind, LLC (Palouse)

was its least-cost option. At that time, Avista's analysis showed the cost of the Palouse generation was among the lowest in the Northwest for wind projects completed in recent years.

Finally, on March 7, 2012, the biomass energy bill (SB 5575) was signed into law. The effect of this law was to allow Avista to include, for the first time, the company's Kettle Falls Generating Station (Kettle Falls) as a qualifying renewable resource under the Energy Independence Act.

As a result of these two events: the Palouse PPA and the qualification of Kettle Falls as a qualifying renewable resource, Avista no longer had a need for Reardan. The company terminated the Project. Washington's share of the total Project cost is \$2.586 million.

Prior Petition

On January 28, 2013, Avista filed an accounting petition in Docket UE-130115 (prior petition) requesting accounting treatment for transmission revenues associated with the settlement between Avista and BPA, and the company's Reardan wind development costs.

In the prior petition, Avista sought to use its Energy Recovery Mechanism (ERM) as the vehicle to share the incremental transmission revenues from BPA and for recovery of its development costs associated with Reardan. Avista proposed to allocate \$4.554 million of the BPA/Avista settlement to Washington ratepayers and \$3.049 million to the company. In addition, Avista proposed all prospective revenues from the BPA contract would be tracked in the ERM. Finally, the company proposed to recover its Reardan costs of \$2.586 million with the ratepayers' share of the settlement. The net result of the proposed accounting would return \$1.968 million for ratepayers and would be credited to the ERM balancing account.

After consulting with commission staff (staff), Public Counsel and the Industrial Customers of Northwest Utilities (ICNU), Avista withdrew its prior petition on April 12, 2013, and subsequently filed a new accounting petition (current petition) outlining different accounting treatment.

Current Petition

Avista filed the current petition in Docket UE-130536 on April 12, 2013. Avista's proposal is summarized below:

- a) Avista will retain Washington's allocated amount of the BPA incremental firm transmission revenues of approximately \$7.604 million, related to the 2005-2012 period.
- b) In 2013, Avista will expense (write off) the entire share of Washington costs of approximately \$2.586 million associated with Reardan. Avista will absorb this loss and will not include any Reardan-related costs in any future rate filing in Washington.
- c) Beginning January 1, 2013, Avista will separately defer and track for ratepayer benefit Washington's allocated amount of incremental firm transmission revenues received from BPA. Washington's allocated amount is approximately \$2.1 million annually. The deferral will continue until the date of the commission's order in the company's next general rate case.

- d) At the time Avista files tariffs to increase rates for 2014 (an allowed tariff filing pursuant to the settlement agreement the commission approved in Docket UE-120436), the company will file a tariff with the same effective date that credits to its customers, during 2014, \$4.2 million associated with these incremental transmission revenues. The company is authorized to separately track the amounts refunded to customers during this period and adjust any remaining balance to the current amounts on the company's books associated with balances in the ERM. As Avista credits this money to customers, Avista will decrease the balance in the deferred account by the same amount.
- e) The deferred revenue from the BPA contract will be assigned to Avista's rate schedules in the same manner as costs for transmission were allocated in the most recent general rate case, Docket UE-120436.
- f) In Avista's next general rate case, Avista will follow current procedures and include BPA incremental firm transmission revenues in the calculation of normalized power supply expense.

Discussion

After staff had reviewed the company's prior petition, discussions ensued between staff, Public Counsel and ICNU. Concerns staff had with the prior petition included:

1. Resolving prudence in an accounting petition (Reardan)¹
2. The potential increase in costs if the company deferred its investment in Reardan until the next General Rate Case (GRC), and accrued carrying costs in the meantime
3. Using the ERM/sharing bands for firm transmission revenues
4. Relative lack of tangible benefit to ratepayers from the company's prior proposal
5. Problems for addressing ongoing benefits of the BPA transmission revenues due to the current Avista Rate Plan for 2013 and 2014

Staff presented an alternative proposal to Avista, Public Counsel and ICNU that is represented in the current petition. Under the current petition, the company keeps the BPA settlement revenue prior to 2013, but must write off its investment in Reardan without any impact on rates.

In addition, ratepayers receive 100 percent of all BPA transmission revenues after 2012. During the pendency of the Rate Plan, these revenues will be used to mitigate the scheduled rate increase in 2014. If the company files a GRC in 2015, ratepayers will benefit by including these transmission revenues in the calculation of normalized power costs.

In these ways, the accounting in the current petition provides a known and tangible benefit to ratepayers.

¹ Notwithstanding this concern, staff believes the evidence is clear that Avista was prudent in pursuing the Project and ultimately terminating it when circumstances changed.

Conclusion

Staff supports the accounting treatment in the current petition filed by Avista as reasonable. It will result in rates that are fair, just, reasonable and sufficient for all parties. Staff recommends the commission issue an Order authorizing the accounting treatment for transmission revenues associated with a settlement between Bonneville Power Administration and Avista Corporation, and Reardan wind development costs outlined in the Accounting Petition filed by Avista Corporation in Docket No. UE-130536.