Agenda Date: September 12, 2001
Item Number: **2A**

Docket: **UE-011143**

Company: Avista Corporation

Staff: Alan Buckley, Senior Policy Strategist
Roland Martin, Regulatory Consultant

Recommendation:

Allow the Revision to Sheet 59 Canceling Original Sheet 59, filed in Docket No. UE-011143, to take effect beginning October 1, 2001, and issue an order granting the Petition of Avista to implement a Residential and Small Farm Energy Rate Adjustment Credit.

Summary:

The purpose of Schedule 59 – Residential and Small Farm Energy Rate Adjustment is to pass through to qualifying Washington electric residential and small farm customers the estimated benefits to be derived under the Residential Exchange Settlement Agreement between Avista and the Bonneville Power Administration ("BPA") for the Contract Year October 1, 2001 through September 30, 2002. The initial credit amount has been set at 0.350 cents per kWh. This provides for approximately $7.9 million in benefits to Avista's residential and small farm customers from federal hydroelectric projects located in the Northwest. This amount is a reduction from the company's original notice to customers due to changes in estimated energy prices, as well as the result of more recent actions by BPA regarding the conversion of Avista's Firm Power Sale Agreement to monetary benefits for the first five contract years. Adjustments to the credit amount are expected to be made on an annual basis or more often, if necessary, to recover or pass-through the variation between credits and exchange program benefits.

Discussion:

Schedule 59 applies to Schedule 1 – Residential Service, Schedule 12 – Residential and Farm General Service, Schedule 22 – Residential and Farm Large General Service, Schedule 32 – Residential and Farm Pumping Service, and Schedule 48 - Residential and Farm Area Lighting Service.

In the Settlement Agreement with BPA, Avista received rights to 90 aMWs of benefits from the federal hydropower system beginning October 1, 2001. Benefits under the Agreement consist of three components: a monetary benefit, a firm power sale benefit, and a firm power reduction benefit. Avista receives 42 aMWs (29 aMWs Washington) of the 90 aMWs in the form of a monetary benefit based on the difference between BPA's Forward Price Forecast and the Residential Exchange ("RL") Rate. The amount is fixed through September 2006 with adjustment being made during the October 2006 through September 2011 period. This monetary benefit is subject to only the "safety-net" component of BPA's Cost Recovery Adjustment Clause ("CRAC") which is not expected to trigger during the first contract year. Avista had the option of taking delivery of 43 aMWs (30 aMWs Washington) of power under the Agreement or electing to terminate the Firm Power Sale and converting it to monetary benefits. The Company has made the decision to terminate the Firm Power Sale Agreement and convert it to monetary benefits for the first five contract years. BPA has recently determined that a terminated Firm Power Sale Agreement converted to monetary benefits is subject to all BPA's CRAC adjustments. This results in a reduction of total benefits Avista's customers will receive under the Settlement for at least the first year. Finally, in an effort to mitigate BPA's overall rate increase Avista agreed to reduce the amount of firm power to be provided by BPA by approximately 10% for a one year period. In exchange, BPA will make a cash payment to Avista.

The actual benefits credited to customers in the first year may be different than the actual benefits received from BPA under the Agreement due to differences in actual and estimated loads as well as BPA's final RL rate and CRAC triggers. Therefore, Avista is proposing a true-up mechanism to true up the difference over time between benefits credited to customers and the actual benefits received.

Benefits derived as a result of the Settlement Agreement will be deferred to a separate sub-account of Account 254 – Other Regulatory Liabilities in order to distinguish the residential exchange from other items. Account 254 will be amortized by debiting Account 254 and crediting Account 407.4 – Regulatory Credits by an amount equal to the amount of revenue passed through to customers during the month. The balance in Account 254 will reflect the difference between actual benefits and the amount of credit passed on to residential and small farm customers and will be part of the calculation of any revision to the rate credit.

Conclusion:

The proposed adjustment credit passes through the benefits under the Avista – BPA Agreement to Avista's residential and small farm customers. The accounting mechanism to true-up the difference between the benefits credited to customers and the actual benefits received from BPA is reasonable and should be granted.