

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-12 \_\_\_\_\_

DIRECT TESTIMONY OF

RONALD L. MCKENZIE

REPRESENTING AVISTA CORPORATION

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OFFICE OF THE  
CLERK OF THE  
COMMISSION

**I. INTRODUCTION**

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**Q. Please state your name, business address and present position with Avista Corporation ("Avista" or "Company").**

A. My name is Ronald L. McKenzie and my business address is East 1411 Mission Avenue, Spokane, Washington. I am employed by Avista as Manager, Regulatory Accounting in the State and Federal Regulation Department.

**Q. Would you briefly describe your educational background and professional experience?**

A. I graduated from Eastern Washington University in 1973 with a Bachelor of Arts degree in Business Administration majoring in accounting. I joined the Company in September 1974. I obtained a Master of Business Administration Degree from Eastern Washington University in 1989. I have attended several utility accounting and ratemaking courses and workshops. I have held various accounting positions within the Company. I have served in the State and Federal Regulation Department for the majority of my career with the Company.

**Q. Have you previously testified before this Commission?**

A. Yes. I have testified before this Commission in several prior proceedings.

**Q. What is the scope of your testimony in this proceeding?**

A. My testimony addresses the accounting associated with the power cost deferrals under the Energy Recovery Mechanism ("ERM") approved by the Commission in Docket No. UE-011595. I also explain what is contained in the monthly reports that are filed with the Commission.

**Q. Are you sponsoring any exhibits?**

1           A.     Yes. I am sponsoring Exhibit No. \_\_\_\_ (RLM-2), which consists of a copy of the  
2 December 2011 monthly ERM report that is being included for informational purposes.

3                                   **II. ACCOUNTING ASSOCIATED WITH ERM DEFERRALS**

4           **Q.     Would you please describe the accounting associated with the Company's**  
5 **ERM deferral mechanism?**

6           A.     Yes. In his direct testimony Company witness Mr. William G. Johnson discusses  
7 the procedure to calculate the monthly variations between actual and authorized power supply  
8 revenues and expenses. The ERM deadband and sharing mechanism were modified effective  
9 January 1, 2006 pursuant to Order 03 in Docket UE-060181 dated June 16, 2006. An additional  
10 modification was made to the second ERM band in a rebate situation in the Multi-party  
11 Stipulation and Settlement approved by Order No. 8 dated December 29, 2008, in Dockets UE-  
12 080416 and UG-080417. Under the current mechanism, monthly variations are accumulated  
13 until the calendar-year deadband of \$4.0 million is exceeded. Once the deadband is exceeded,  
14 50% of the cumulative variation between actual and authorized net power supply costs between  
15 \$4.0 million and \$10.0 million is deferred if the deferral is in the surcharge direction, and 75% is  
16 deferred if the deferral is in the rebate direction. Once the cumulative power supply cost  
17 variance from the amount included in base rates exceeds \$10.0 million, 90% of the cost variance  
18 is deferred for future surcharge or rebate. When actual net power supply costs exceed authorized  
19 costs, entries are made to record the deferral amount by crediting Account 557.28 - Other Power  
20 Supply Expenses, thereby decreasing recorded power supply expenses, and debiting Account  
21 186.28 - Miscellaneous Deferred Debits. If actual net power supply costs are less than  
22 authorized costs in a given month, an entry is made to record the difference by debiting Account  
23 557.28 - Other Power Supply Expenses, thereby increasing recorded power supply expenses, and

1 crediting Account 186.28 - Miscellaneous Deferred Debits. An accumulated debit balance in  
2 Account 186.28 represents a surcharge balance, while an accumulated credit balance represents a  
3 rebate balance.

4 **Q. How is interest recorded on the deferral balances?**

5 A. Interest is calculated pursuant to the Settlement Stipulation approved by the  
6 Commission's Fifth Supplemental Order in Docket No. UE-011595, dated June 18, 2002.  
7 Interest is applied to the average of the beginning and ending month balances in Account 186.28  
8 net of associated deferred federal income tax. The Company's weighted cost of debt is used as  
9 the interest rate. The interest rate is updated semi-annually and interest is compounded semi-  
10 annually. The interest rate used for the period January 1, 2011 through June 30, 2011 was  
11 5.614%, the Company's weighted cost of debt at December 31, 2010. The interest rate used for  
12 the period July 1, 2011 through December 31, 2011 was 5.617%, the Company's weighted cost  
13 of debt at June 30, 2011.

14 **Q. How are income taxes accounted for under the deferred power cost**  
15 **mechanism?**

16 A. The power cost deferral entries are not recognized in the determination of taxable  
17 income for federal income tax purposes. Therefore, deferred federal income taxes are recorded.  
18 Account 283.28 – Accumulated Deferred Federal Income Tax reflects a credit balance of 35% of  
19 the debit balance in Account 186.28, or reflects a debit balance of 35% of the credit balance in  
20 Account 186.28. When Account 283.28 is credited, Account 410.10 – Deferred FIT Expense in  
21 debited. Likewise, when Account 283.28 is debited, Account 410.10 is credited.

22 **Q. In 2011 what were the amounts deferred, absorbed by the Company, and the**  
23 **balance in the 2011 deferral account, Account 186.28, at December 31, 2011?**



1           A.     The Company is required to make an annual filing, on or before April 1 of each  
2 year, regarding the power costs deferred in the prior calendar year under the ERM. The filing  
3 consists of testimony, exhibits, and supporting documentation. Since its inception in 2002, the  
4 Company has made ten such annual filings, including the present filing covering the 2011  
5 calendar year.

6           **Q.     What is the review period for the annual ERM filing?**

7           A.     The Commission Staff and interested parties have the opportunity to review the  
8 deferral information during a 90-day review period ending June 30<sup>th</sup> each year. The 90-day  
9 review period may be extended by agreement of the parties participating in the review, or by  
10 Commission order.

11          **Q.     When was the last annual ERM filing addressed by the Commission?**

12          A.     The annual ERM filing covering the 2010 calendar year was filed February 17,  
13 2011 in Docket No. UE-110313. As a result of the Settlement Stipulation approved in Docket  
14 Nos. UE-100467 and UG-100468 by Order 07 dated November 19, 2010, no ERM deferral  
15 entries were made in 2010.

16          **Q.     Have the 2011 ERM calculations and accounting entries been made in a  
17 manner consistent with the ERM methodology approved by the Commission?**

18          A.     Yes.

19          **Q.     Does this conclude your pre-filed direct testimony?**

20          A.     Yes, it does.