BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-14____

DIRECT TESTIMONY OF

JEANNE M. PLUTH

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

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

A. My name is Jeanne M. Pluth and my business address is 1411 East 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. Yes. I am a 1986 graduate of Eastern Washington University with a Bachelor of Arts Degree in Business Administration, majoring in Accounting. In 1987, I passed the Certified Public Accountant exam, earning my CPA License in April 1988. I worked for McFarland & Alton, CPAs from 1991 to 1997. I worked at Ecova, a subsidiary of Avista, before joining Avista Utilities in December 2004. I served in the Projects and Fixed Assets section of the Finance Department before I was hired into the State and Federal Regulation Department as a Regulatory Analyst in November 2006. In this role, I have assisted in developing and supporting the Company's electric and/or natural gas general rate filings in Washington, Idaho and Oregon, as well as miscellaneous regulatory accounting issues and special projects. In November 2013, I was promoted to my current role. I have attended several utility accounting and ratemaking training courses.

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 address the accounting associated with the renewable energy credits

("RECs") deferrals approved by the Commission in Docket Nos. UE-120436 and UG-120437 (consolidated). I also explain what is contained in the monthly reports that are filed with the Commission. In addition, my testimony addresses the level of fixed costs related to the Colstrip 3 & 4 generating plant (Colstrip) for 2013 and the level included in base rates.

Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring Exhibit No. ___(JMP-2), which consists of a copy of the December 2013 monthly ERM report for informational purposes, and Exhibit No. ___(JMP-3), which shows fixed costs related to Colstrip.

II. ACCOUNTING ASSOCIATED WITH ERM DEFERRALS

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

A. Yes. In his direct testimony Company witness Mr. Johnson discusses the procedure to calculate the monthly variations between actual and authorized power supply revenues and expenses.

Under the ERM deferral mechanism, monthly variations are accumulated until the calendar-year deadband of $4.0 million is exceeded. Once the deadband is exceeded, 50% of the cumulative variation between actual and authorized net power supply costs between $4.0 million and $10.0 million is deferred if the deferral is in the surcharge direction, and 75% is deferred if the deferral is in the rebate direction. Once the cumulative power supply cost variance from the amount included in base rates exceeds $10.0 million, 90% of the cost variance is deferred for future surcharge or rebate.[1]

When actual net power supply costs exceed authorized costs, entries are made to record the deferral amount by crediting FERC Account 557.28 - Other Power Supply Expenses, thereby decreasing recorded power supply expenses, and debiting FERC Account 186.28 - Miscellaneous Deferred Debits. If actual net power supply costs are less than authorized costs in a given month, an entry is made to record the difference by debiting FERC Account 557.28 - Other Power Supply Expenses, thereby increasing recorded power supply expenses, and crediting FERC Account 186.28 - Miscellaneous Deferred Debits. An accumulated debit balance in FERC Account 186.28 represents a surcharge balance, while an accumulated credit balance represents a rebate balance.

Q. How is interest recorded on the deferral balances?

A. Interest is calculated pursuant to the Settlement Stipulation approved by the Commission's Fifth Supplemental Order in Docket No. UE-011595, dated June 18, 2002. Interest is applied to the average of the beginning and ending month balances in Account 186.28 net of associated deferred federal income tax. The Company's weighted cost of debt is used as the interest rate. The interest rate is updated semi-annually and interest is compounded semi-annually. The interest rate used for the period January 1, 2013 through June 30, 2013 was 5.711%, the Company's weighted cost of debt at December 31, 2012. The interest rate used for

[1] The ERM deadband and sharing mechanism were modified effective January 1, 2006 pursuant to Order 03 in Docket No. UE-060181 dated June 16, 2006. An additional modification was made to the second ERM band in the Multi-party Stipulation and Settlement approved by the Commission in Order No. 8 dated December 29, 2008, in Docket Nos. UE-080416 and UG-080417. In Docket Nos. UE-120436 and UG-120437, the ERM rate adjustment trigger was modified, from 10% of base revenues to a $30 million threshold. Once the $30 million trigger is reached, the Company would either surcharge or rebate the ERM balance to customers.

the period July 1, 2013 through December 31, 2013 was 5.701%, the Company's weighted cost of debt at June 30, 2013.

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

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

Q. In 2013 what were the amounts deferred and the amount absorbed by the Company?

A. For the 2013 calendar year, <u>actual</u> net power costs were greater than <u>authorized</u> net power costs for the Washington jurisdiction by $5,037,302. The deferral for 2013 amounted to $518,651, which consists of 50% of the $4.0 million to $10.0 million sharing band ($1,037,302 * 50%). The Company absorbed $4,518,651 in excess net power costs in 2013.

Q. What was the balance in the ERM deferral account, Account 186.28, at December 31, 2013?

A. The balance in the 2013 deferral account at December 31, 2013 was $1,256,447 (surcharge direction) and consists of the following:

1. Surcharge of $518,651 related to 50% of the net power costs residing in the $4.0 million to $10.0 million sharing band ($1,037,302 * 50% = $518,651).

2. Rebate of $70,084 related to actual Colstrip fixed costs less than authorized costs related to Colstrip availability below 70%, which is described later in my testimony[2].
3. Surcharge of $808,681 due to an error related to the allocation of natural gas transport costs between the Company's power supply operations and the Company's natural gas distribution operations[3].
4. Rebate of $801 related to interest.

Q. What was the total balance in the ERM deferral accounts, including deferral that arose prior to 2013, at December 31, 2013?

A. The total balance in the ERM deferral accounts, including the 2013 surcharge recorded, was $17,903,588, in a rebate direction.

Table No. 1 summarizes the activity in all ERM deferral accounts in 2013.

Table No. 1:

Deferral Balance at December 31, 2012 (FERC Accounts 186290 and 182350) - Rebate	$ (22,295,970)
2013 Activity:	
Returned to Customers (See Note A)	3,983,300
Tranfer to ERM - Palouse Wind Deferral from 2012 (See Note B)	(80,774)
Interest	(766,591)
Total 2013 Activity	3,135,935
2013 ERM Deferral (FERC Account 186280) - Surcharge	1,256,447
Deferral Balance at December 31, 2013 - Rebate	$ (17,903,588)

Notes:
A. The rebate to customers when adjusted for revenue-related items was approximately $4.2 million.
B. The Palouse Wind Deferral transfer was described in the March 2013 report filed with the Commission on April 15, 2013.

[2] As described later in my testimony, the Company accrued a preliminary estimate of Washington's share of the difference between actual and authorized fixed costs. This amount was adjusted by $9,040 in January 2014. Description of the conditions that caused Colstrip availability to fall below 70% is provided in Mr. Dempsey's testimony.

[3] Details regarding the adjustment due to an error related to the allocation of natural gas transport costs between the Company's power supply operations and the Company's natural gas distribution operations were provided in the December 2013 ERM Deferral Report filed with the Commission on January 16, 2014, and included in this filing as Exhibit No. ___(JMP-2).

In Order 09, Docket UE-120436, the Company was authorized to return approximately $4.4 million of the accumulated ERM deferral balance to customers beginning January 1, 2013. In addition, the Company was authorized to return approximately $9.0 million to customers in 2014. This rebate to customers is currently in place.

III. COLSTRIP FIXED COSTS

Q. Would you please explain why Colstrip fixed costs are being addressed in this proceeding?

A. Yes. There was an extended outage at the Colstrip plant that reduced the availability of the plant below 70% for the 2013 ERM review period. Paragraph 6(E) of the Settlement Agreement approved by Order 03 in Docket UE-060181 dated June 16, 2006, requires the Company to demonstrate that: (1) the fixed costs set in rates were incurred for the time the plant had an outage that reduced the availability factor below 70%; and (2) the outage was not the result of imprudent actions on the part of the Company.

My testimony explains that the actual level of fixed costs for 2013 were slightly less than the fixed costs set in rates, and Company witness Mr. Dempsey explains that the outage was not the result of imprudent actions on the part of the Company.

Q. How are fixed costs defined in the Settlement Agreement?

A. The fixed costs are defined as return on rate base net of tax, depreciation expense, and operation and maintenance expense not included in the net power costs and other production costs related to the plant.

Q. How do the Colstrip plant fixed costs for 2013 compare to the fixed costs set in rates?

A. Exhibit No. ___(JMP-3) shows the actual fixed costs related to Colstrip for 2013 and the amount set in rates. The amount set in rates results from the Multiparty Settlement Stipulation approved in Docket No. UE-120436 by Order 09 dated December 26, 2012. The Exhibit shows that the actual Colstrip fixed costs for 2013 were $23,420,510 on a system basis compared to the amount set in rates of $23,514,079, as shown on line 11. Washington's share of the difference in costs was $61,044.

Q. How did the Company account for actual lower fixed costs than the fixed costs set in rates?

A. In December 2013, the Company prepared a preliminary analysis that showed Washington's share of the difference between actual and authorized fixed costs on the Colstrip plant was $70,084. The Company recorded this amount as a credit to the ERM deferral account (FERC Account 186.28). In January, the Company prepared the final analysis, provided in Exhibit No. ___(JMP-3) that showed Washington's share of the difference in costs was $61,044. The Company recorded the true-up of $9,040 in the ERM deferral in January 2014.

IV. ACCOUNTING ASSOCIATED WITH REC DEFERRALS

Q. How were RECs accounted for during 2013?

A. Prior to 2012, RECs were a component of the net power costs that were tracked in the ERM. Pursuant to Order No. 09 in Docket Nos. UE-120436 and UG-120437 (consolidated) dated December 26, 2012, at paragraph 85, the Company was required to record the excess of the actual net REC revenues over the amount included in base rates in a separate tracking account, FERC Account 186.322 – Miscellaneous Deferred Debits – Washington REC Deferrals. This account is not subject to the deadbands or sharing bands that are approved for the ERM[4]. Interest and deferred taxes are recorded in a manner consistent with the manner used for the ERM deferral.

In 2013, actual net REC revenues exceeded the amount in base rates by $1,212,070. The balance in the REC deferral account at December 31, 2013 was $1,606,948 (rebate direction) and consists of the balance at December 31, 2012 of $361,849, the 2013 rebate deferral of $1,212,070 and interest for the 2013 calendar year of $33,029.

Q. What did the Commission order as it relates to returning REC sale proceeds to customers?

A. The Commission ordered that Avista, in its next filed general rate case, "propose a mechanism for returning any such accumulated difference of REC sale proceeds in a true-up".[5]

At paragraph 84 of Order No. 09, the Commission ordered the following:

> To simplify the treatment of REC sale proceeds in the next general rate case, the Commission orders Avista to remove REC sale proceeds from the ERM account and base rates, to project the revenues expected in the rate year, and to defer such revenues to a tracking account established by the Company. The REC sale proceeds will be returned to ratepayers via a mechanism consistent with those used by Puget Sound Energy and PacifiCorp and presented for approval in the next general rate case.

Q. Has the Company proposed a mechanism for returning the net REC revenues that have been deferred?

A. Yes. The Company filed a general rate case on February 4, 2014 (Docket Nos. UE-140188 and UG-140189). Mr. Johnson's testimony in that filing, described a proposed

[4] The Company will continue to record the difference between REC sale proceeds included in base rates versus actual REC sale proceeds until the Company's next general rate case.
[5] Order No. 09, Docket Nos. UE-120436 and UG-120437, ¶ 83.

mechanism to track, defer and return Renewable Energy Credit (REC) revenue to customers in Exhibit No. ___(WGJ-1T) at page 14, line 9. A summary of his proposal follows:

> The Company proposes to implement a REC revenue rebate effective January 1, 2015, coinciding with any change in base rates from the general rate case filing. This rebate would be based on actual and projected net REC revenues from 2012 through June 2016. The proposed amortization period for this rebate would be 18 months, January 2015 through June 2016. REC revenue would be based on the actual REC revenue in excess of the amount in base rates for 2012 and 2013, the estimated REC revenue in excess of the amount in base rates for 2014, and the total estimated REC revenue for the period January 2015 through June 2016. The Company proposes that the rebate be implemented on a uniform cents/kWh basis across all rate classes.
>
> The Company proposes to implement an initial net REC revenue rebate beginning January 1, 2015 based on actual and estimated REC revenues. This rebate would be in effect through June 2016. On or before April 1, 2016, as part of the annual ERM filing, the Company would provide the Commission with a true-up of net REC revenues through December 2015 and provide an estimate of net REC revenues for the period July 2016 through June 2017. The Company proposes that this estimate, along with the true-up, form the basis for a new REC revenue rebate that would go into effect July 1, 2016 and end June 30, 2017. The same process would repeat each year, where the Company includes a true-up and estimate for a new REC revenue rebate as part of its annual ERM filing.

V. ERM AND REC MONTHLY AND ANNUAL REPORTS

Q. Would you please describe the monthly reports that the Company submits to the Commission?

A. Yes. The Company submits monthly reports to the Commission, Public Counsel, and the Industrial Customers of Northwest Utilities that include the monthly power cost and REC deferral journal entries together with backup workpapers and other supporting documentation.

The cover letter to the monthly report contains a brief explanation of the factors causing the variance between actual and authorized power costs. The beginning of the month account balances, the recorded activity within the accounts, and the ending month account balances are shown. The January and July reports contain the supporting workpapers for the semi-annual updates of the weighted cost of debt used in the interest calculations. The monthly reports also include any new power contracts of one-year or longer, entered into during the month. The December 2013 report is attached for informational purposes as Exhibit No. ___(JMP-2).

Q. What are the requirements associated with the annual filing to review deferrals?

A. The Company is required to make an annual filing, on or before April 1 of each year, regarding the power costs deferred in the prior calendar year under the ERM. The filing consists of testimony, exhibits, and supporting documentation. Since its inception in 2002, the Company has made twelve such annual filings, including the present filing covering the 2013 calendar year.

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

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

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

A. The annual ERM filing covering the 2012 calendar year was filed March 28, 2013 in Docket No. UE-130438. Order 01 was issued in that docket on July 11, 2013, and the Commission found that the power cost deferrals for 2012 were properly calculated and recorded.

Q. Have the 2013 ERM and REC calculations and accounting entries been made in a manner consistent with the ERM and REC methodology approved by the Commission?

A. Yes.

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

A. Yes, it does.