

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-07 ____

DIRECT TESTIMONY OF

RONALD L. MCKENZIE

REPRESENTING AVISTA CORPORATION

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I. INTRODUCTION

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

2 A. Interest is calculated pursuant to the Settlement Stipulation approved by the
3 Commission's Fifth Supplemental Order in Docket No. UE-011595, dated June 18, 2002.
4 Interest is applied to the average of the beginning and ending month balances in Account 186.28
5 net of associated deferred federal income tax. The Company's weighted cost of debt is used as
6 the interest rate. The interest rate is updated semi-annually and interest is compounded semi-
7 annually. The interest rate used for the period January 1, 2006 through June 30, 2006 was
8 8.100%, the Company's weighted cost of debt at December 31, 2005. The interest rate used for
9 the period July 1, 2006 through December 31, 2006 was 8.253%, the Company's weighted cost
10 of debt at June 30, 2006.

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

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

19 **Q. In 2006 what were the amounts deferred, absorbed by the Company, and the**
20 **balance in the 2006 deferral account, Account 186.28, at December 31, 2006?**

21 A. For the 2006 calendar year actual net power costs were less than authorized net
22 power costs for the Washington jurisdiction by \$2,601,664. Since the difference between actual

1 and authorized power costs for the year was less than the \$4.0 deadband, there was no deferral
2 for the year as a whole, and the entire difference was absorbed by the Company. However,
3 during the months of March through July 2006, there were deferral balances in the rebate
4 direction since the cumulative differences between actual and authorized power costs exceeded
5 the \$4.0 deadband amount in the rebate direction for each of those months. For the other months
6 of the year, and for the year as a whole, the cumulative differences between actual and authorized
7 power costs fell within the \$4.0 million deadband, and the deferral balances were zero. During
8 the months of March through July 2006 when there were deferral balances in the rebate direction,
9 interest was accrued on the deferral balances. The balance in the 2006 deferral account at
10 December 31, 2006 was \$-68,246 (rebate direction) and consists entirely of interest for the 2006
11 calendar year.

12 III. ERM MONTHLY AND ANNUAL REPORTS

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

15 A. The Company submits monthly reports to the Commission, Public Counsel, and
16 ICNU that include the monthly power cost deferral journal entries together with backup
17 workpapers and other supporting documentation. The cover letter to the monthly report contains
18 a brief explanation of the factors causing the variance between actual and authorized power costs.
19 The beginning of the month account balances, the recorded activity within the accounts, and the
20 ending month account balances are shown. The January and July reports contain the supporting
21 workpapers for the semi-annual updates of the weighted cost of debt used in the interest
22 calculations. The monthly reports also include any new power contracts of one-year or longer,

1 entered into during the month. Attached as Exhibit No. ____ (RLM-2) is a copy of the December
2 2006 report for informational purposes.

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

5 A. The Company is required to make an annual filing, on or before April 1 of each
6 year, regarding the power costs deferred in the prior calendar year under the ERM. The filing
7 consists of testimony, exhibits, and supporting documentation. Since its inception in 2002, the
8 Company has made five such annual filings, including the present filing covering the 2006
9 calendar year.

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

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

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

16 A. The annual ERM filing covering the 2005 calendar year was reviewed in Docket
17 No. UE-060493. Order 01 was issued in that docket on June 28, 2006, and the Commission
18 found that the power cost deferrals for 2005 were prudent.

19 **Q. Have the 2006 ERM calculations and accounting entries been made in a**
20 **manner consistent with the ERM methodology approved by the Commission?**

21 A. Yes.

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

1 A. Yes, it does.

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