BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-13\_\_\_\_

DIRECT TESTIMONY OF

PATRICK D. EHRBAR

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 Patrick D. Ehrbar and my business address is East 1411 Mission Avenue, Spokane, Washington. I am employed by Avista as Manager, Rates and Tariffs in the State and Federal Regulation Department.

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

A. I am a 1995 graduate of Gonzaga University with a Bachelors degree in Business Administration. In 1997 I graduated from Gonzaga University with a Masters degree in Business Administration. I started with Avista in April 1997 as a Resource Management Analyst in the Company’s Demand Side Management (DSM) department. Later, I became a Program Manager, responsible for energy efficiency program offerings for the Company’s educational and governmental customers. In 2000, I was selected to be one of the Company’s key Account Executives. In this role I was responsible for, among other things, being the primary point of contact for numerous commercial and industrial customers, including delivery of the Company’s site specific energy efficiency programs.

I joined the State and Federal Regulation Department as a Senior Regulatory Analyst in 2007. Responsibilities in this role included being the discovery coordinator for the Company’s rate cases, line extension policy tariffs, as well as miscellaneous regulatory issues. In November 2009, I was promoted to my current role.

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

A. Yes. I have provided pre-filed direct testimony 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 address the accounting associated with the renewable energy credits ("RECs") deferrals approved by the Commission in Docket Nos. UE-120436 and UG-120437 (consolidated). In addition, I explain what is contained in the monthly reports that are filed with the Commission.

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

A. Yes. I am sponsoring two exhibits. Exhibit No. \_\_\_(PDE-2) is a copy of the December 2012 monthly ERM report. Exhibit No. \_\_\_(PDE-3) is a copy of the February 2013 monthly ERM report, that describes certain adjustments that were made to the 2012 ERM and REC deferral accounting.

##### II. ACCOUNTING ASSOCIATED WITH ERM AND REC 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. William G. 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]](#footnote-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, 2012 through June 30, 2012 was 5.645%, the Company’s weighted cost of debt at December 31, 2011. The interest rate used for the period July 1, 2012 through December 31, 2012 was 5.713%, the Company’s weighted cost of debt at June 30, 2012.

**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 2012 what were the amounts deferred, the amount absorbed by the Company, and the balance in the 2012 deferral account, Account 186.28, at December 31, 2012?**

A. For the 2012 calendar year, actual net power costs were less than authorized net power costs for the Washington jurisdiction by $14,704,389. The deferral for 2012 amounted to $8,733,950, which consists of 75% of the $4.0 million to $10.0 million sharing band, or $4,500,000, plus 90% of the amount above $10.0 million (90% of $4,704,389), or $4,233,950. The balance in the 2012 deferral account at December 31, 2012 was $8,865,985 (rebate direction) and consists of the rebate deferral of $8,733,950 and interest for the 2012 calendar year of $132,035.

**Q. How were RECs accounted for during 2012?**

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 recorded the excess of the actual 2012 RECs 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[[2]](#footnote-2). Interest and deferred taxes are recorded in a manner consistent with the manner used for the ERM deferral.

In 2012, actual net REC revenues exceeded the amount in base rates by $357,194. The balance in the 2012 deferral account at December 31, 2012 was $361,849 (rebate direction) and consists of the rebate deferral of $357,194 and interest for the 2012 calendar year of $4,655.

**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, to “propose a mechanism for returning any such accumulated difference of REC sale proceeds in a true-up”.[[3]](#footnote-3)

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.

##### III. 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 2012 report is attached as Exhibit No. \_\_\_(PDE-2). In addition, the February 2013 monthly ERM report, which describes certain adjustments that were made to the 2012 ERM and REC deferral accounting, is attached as Exhibit No. \_\_\_(PDE-3).

**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 eleven such annual filings, including the present filing covering the 2012 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 2011 calendar year was filed March 29, 2012 in Docket No. UE-120432. Order 01 was issued in that docket on June 28, 2012, and the Commission found that the power cost deferrals for 2011 were properly calculated and recorded.

**Q. Have the 2012 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.

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 the current 10% of base revenues to $30 million threshold. Once the $30 million trigger is reached, the Company would either surcharge or rebate the ERM balance to customers. [↑](#footnote-ref-1)
2. 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. [↑](#footnote-ref-2)
3. Order No. 09, Docket Nos. UE-120436 and UG-120437, ¶ 83. [↑](#footnote-ref-3)