

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-15 ____

DIRECT TESTIMONY OF

PATRICK D. EHRBAR

REPRESENTING AVISTA CORPORATION

1 **I. INTRODUCTION**

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

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

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

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

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

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

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

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

7 A. Yes. I am sponsoring Exhibit No. ____ (PDE-2), which consists of a copy of
8 the December 2014 monthly ERM report for informational purposes.

9

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

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

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

16 Under the ERM deferral mechanism, monthly variations are accumulated until the
17 calendar-year deadband of \$4.0 million is exceeded. Once the deadband is exceeded, 50%
18 of the cumulative variation between actual and authorized net power supply costs between
19 \$4.0 million and \$10.0 million is deferred if the deferral is in the surcharge direction, and
20 75% is deferred if the deferral is in the rebate direction. Once the cumulative power supply
21 cost variance from the amount included in base rates exceeds \$10.0 million, 90% of the cost
22 variance is deferred for future surcharge or rebate.

1 When actual net power supply costs exceed authorized costs, entries are made to
2 record the deferral amount by crediting FERC Account 557.28 - Other Power Supply
3 Expenses, thereby decreasing recorded power supply expenses, and debiting FERC Account
4 186.28 - Miscellaneous Deferred Debits. If actual net power supply costs are less than
5 authorized costs in a given month, an entry is made to record the difference by debiting
6 FERC Account 557.28 - Other Power Supply Expenses, thereby increasing recorded power
7 supply expenses, and crediting FERC Account 186.28 - Miscellaneous Deferred Debits. An
8 accumulated debit balance in FERC Account 186.28 represents a surcharge balance, while
9 an accumulated credit balance represents a rebate balance.

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

11 A. Interest is calculated pursuant to the Settlement Stipulation approved by the
12 Commission's Fifth Supplemental Order in Docket No. UE-011595, dated June 18, 2002.
13 Interest is applied to the average of the beginning and ending month balances in Account
14 186.28 net of associated deferred federal income tax. The Company's weighted cost of debt
15 is used as the interest rate. The interest rate is updated semi-annually and interest is
16 compounded semi-annually. The interest rate used for the period January 1, 2014 through
17 June 30, 2014 was 5.459%, the Company's weighted cost of debt at December 31, 2013.
18 The interest rate used for the period July 1, 2014 through December 31, 2014 was 5.343%,
19 the Company's weighted cost of debt at June 30, 2014.

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

22 A. The power cost deferral entries are not recognized in the determination of
23 taxable income for federal income tax purposes. Therefore, deferred federal income taxes

1 are recorded. FERC Account 283.28 – Accumulated Deferred Federal Income Tax reflects a
2 credit balance of 35% of the debit balance in Account 186.28, or reflects a debit balance of
3 35% of the credit balance in Account 186.28. When FERC Account 283.28 is credited,
4 Account 410.10 – Deferred FIT Expense is debited. Likewise, when FERC Account 283.28
5 is debited, FERC Account 410.10 is credited.

6 **Q. In 2014 what were the amounts deferred and the amount absorbed by**
7 **the Company?**

8 A. For the 2014 calendar year, actual net power costs were less than authorized
9 net power costs for the Washington jurisdiction by \$9,526,640. The deferral in the rebate
10 direction for 2014 amounted to \$4,144,980, which consists of 75% of the \$4.0 million to
11 \$10.0 million sharing band ($\$5,526,640 * 75\%$)¹. The Company absorbed \$5,381,660 in
12 reduced net power costs in 2014.

13 **Q. What was the total balance in the ERM deferral accounts at December**
14 **31, 2014, including deferrals that arose prior to 2014?**

15 A. The total balance in the ERM deferral accounts, including the 2014
16 surcharge recorded, was \$14,186,102, in a rebate direction.

17 Table No. 1 summarizes the activity in all ERM deferral accounts in 2014.

18

¹Interest was recorded in the amount of \$79,031 in addition to the \$4,144,980 in deferrals for a total deferral balance in the rebate direction of \$4,224,011.

1 **Table No. 1:**

Summary of Account 186280 and 182350		
GL Account	Description	Activity
186280	Current Year Deferral	\$ (4,144,980)
	Current Year Interest	\$ (79,031)
	ERM Deferral Ending Balance	\$ (4,224,011)
182350	Recoverable Deferral Beginning Balance	\$ (9,879,394)
	Prior Year Balances	\$ (8,009,727)
	Current Year Amortization	\$ 8,469,902
	Current Year Interest	\$ (510,013)
	REC Expense Adjustment	\$ (32,859)
	Ending Recoverable Deferral Balance	\$ (9,962,091)
Total Balance 12/31/14		\$ (14,186,102)

10 In Order 09, Docket UE-120436, the Company was authorized to return
11 approximately \$4.4 million of the accumulated ERM deferral balance to customers
12 beginning January 1, 2013. In addition, the Company was authorized to return
13 approximately \$9.0 million to customers in 2014. Approximately \$8.5 million was passed
14 back to customers during 2014. This rebate to customers was in place through December
15 31, 2014. Per Order No. 05 in Dockets UE-140188 and UG-140189 (consolidated),
16 beginning January 1, 2015, the Company will return to customers approximately
17 \$8.3 million during 2015 from the ERM Deferral.

18 **III. ERM MONTHLY AND ANNUAL REPORTS**

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

21 **A. Yes.** The Company submits monthly reports to the Commission, Public
22 Counsel, and the Industrial Customers of Northwest Utilities that include the monthly power
23

1 cost deferral journal entries together with backup work papers and other supporting
2 documentation. The cover letter to the monthly report contains a brief explanation of the
3 factors causing the variance between actual and authorized power costs. The beginning of
4 the month account balances, the recorded activity within the accounts, and the ending month
5 account balances are shown. The January and July reports contain the supporting work
6 papers for the semi-annual updates of the weighted cost of debt used in the interest
7 calculations. The monthly reports also include any new power supply contracts of one-year
8 or longer, entered into during the month. The December 2014 report is attached for
9 informational purposes as Exhibit No. ____ (PDE-2).

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

12 A. The Company is required to make an annual filing, on or before April 1 of
13 each year, regarding the power costs deferred in the prior calendar year under the ERM.
14 The filing consists of testimony, exhibits, and supporting documentation. Since its inception
15 in 2002, the Company has made thirteen such annual filings, including the present filing
16 covering the 2014 calendar year.

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

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

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

2 A. The annual ERM filing covering the 2013 calendar year was filed March 28,
3 2014 in Docket No. UE-140540. Order No. 01 was issued in that Docket on July 10, 2014,
4 and the Commission found that the power cost deferrals for 2013 were properly calculated
5 and recorded.

6 **Q. Have the 2014 ERM calculations and accounting entries been made in a**
7 **manner consistent with the ERM methodology approved by the Commission?**

8 A. Yes.

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

10 A. Yes, it does.