

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION) OF AVISTA CORPORATION DBA AVISTA) UTILITIES—WASHINGTON WATER) POWER DIVISION (IDAHO) FOR AN) ORDER APPROVING PROPOSED) SCHEDULE 92—ALL CUSTOMER) ELECTRIC ENERGY BUYBACK) PROGRAM.)	CASE NO. AVU-E-01-06 ORDER NO. 28757
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On April 16, 2001, Avista Corporation dba Avista Utilities—Washington Water Power Division—Idaho (Avista; Company) filed an Application with the Idaho Public Utilities Commission (Commission) in Case No. AVU-E-01-6. The Company requests approval of a new Tariff Schedule 92—All Customer Electric Energy Buy-Back Program. The purpose of the program is to promote electric conservation by customers and displace higher cost energy that would otherwise be purchased at prevailing market prices. Conservation will be encouraged by providing customers with a financial incentive for energy savings in excess of 5% of the customer's prior year's usage.

As background for the program, the Company indicates that short-term market prices for electricity are expected to remain high during the remainder of 2001. The current low snow pack and resulting effect on hydro generation in the region, the Company states, will undoubtedly cause upward pressure on market prices during the coming summer months. Forward market prices range from a low of \$258 per (light load) megawatt-hour during May, to a high of \$511 per (heavy-load) megawatt-hour during August. During this period, the Company states that conservation is obviously the most cost-effective means of minimizing power costs.

Program Description

All metered customers who have lived at the same address, or who have had the same place of business for the past 12 consecutive months are eligible for the program. The program is designed to provide an additional incentive for each customer to reduce the amount of energy they use.

The program will apply only to a customer's energy usage (kilowatt hour meter). The customer's energy savings and potential bill credit will be calculated independently for each meter.

Customer energy usage that is not metered, but billed on a flat rate will not be eligible. Customers who are participating in the Company's other buy-back programs will not be eligible for the period that they are participating in that other program.

Customers will receive a bill credit each month if they reduce their usage by more than 5% as compared to the same month in the prior year. The bill credit will be 5¢ for each kilowatt hour savings in excess of the 5% threshold/dead band. The 5% dead band is adopted in lieu of adjusting usage for weather and other factors.

As proposed, the Schedule 92 program will begin with customer meter readings on May 15, 2001 and end with meter readings on October 12, 2001. The effective period is designed to provide all customers five monthly billings under the program. The Company is proposing that customer meter readings on and after May 15 would include the incentive calculation on their bill based on the entire prior month usage.

Proposed Accounting Treatment

The Company proposes to include the amount paid/credited customers under the program, as well as the total reduction of revenue (lost revenue) experienced by the Company during the program in its Power Cost Adjustment (PCA) deferral account. Under the Company's proposed changes to the PCA methodology in Case No. AVU-E-01-1, "excess" power costs incurred by the Company would be deferred. The Company's proposed deferral mechanism includes a revenue adjustment mechanism that would capture lost revenue during the term of the program. The amount associated with bill credits provided under the program would be charged to the deferral account. The Company also requests that it be allowed to defer incremental costs associated with the program promotion and necessary revisions to the Company's billing system. Any costs associated with Company employees, time spent designing, implementing, or administering the program would not be deferred.

Implementation of the program, the Company states, will serve to reduce the balance in the PCA deferral account as opposed to purchasing energy at market prices to serve higher customer energy requirements that would occur without the program. All energy savings by customers that are less than 5% would only impact the deferral account by the amount of lost revenue, an average system level of about 5¢ per kilowatt-hour. For those energy savings that are in excess of 5%, the effective price per kilowatt-hour is about 10¢ (5¢ payment under the program and 5¢ for lost revenue). The potential deferred amount per kilowatt-hour under the program, including lost revenue, the Company contends, obviously represents a substantial savings to customers as

compared to purchasing energy at expected market prices of 26¢ to 51¢ per kilowatt hour during the period. All revenue from any excess generation sold into the market by the Company will be credited against the costs in the deferral account.

Order No. 28720 and Related Procedure

On April 25, 2001, the Commission in Case No. AVU-E-01-6 issued Notices of Application and Modified Procedure and Interlocutory Order No. 28720. Based on its review of the filings of record, the Commission in its Interlocutory Order found the proposed Electric Tariff Schedule 92 to be reasonable, non-discriminatory, just and otherwise in the public interest. The Commission authorized implementation of the proposed tariff on the requested May 15, 2001 effective date.

The Commission made a preliminary finding that the Company's proposed accounting treatment and method for recovery of amounts paid/credited to customers and related program expense was reasonable. The Commission found it reasonable, however, to solicit and consider public comment on that portion of the Company's proposed accounting treatment wherein the Company seeks to recover associated "lost revenue" before approving same.

The Commission approved the proposed tariff in an expedited fashion so that consumers might have an incentive to begin energy saving steps immediately. The Commission noted that it was apprised that Avista was currently paying \$400,000 per day purchasing market priced energy. The Company reported that it was paying an average price of 40¢ per kilowatt hour. The conservation promoted by the tariff, the Commission found, provided an alternative to buying expensive wholesale power.

Adopting abbreviating scheduling, the Commission established a May 9, 2001, deadline for filing written comments with respect to the Company proposed accounting treatment for Schedule 92 (including that portion whereby the Company seeks to recover associated "lost revenue"). Commission Staff was the only party to file comments. Reply comments were filed by the Company on May 18. The comments of Staff and the Company can be summarized as follows:

Commission Staff

Staff is concerned that the 5% KWh reduction threshold may be lower than optimal for maximizing ratepayer benefit. Staff notes that individual kilowatt hour consumption may easily vary by more than 5% from year to year due to weather differences, timing of vacations or business trips, other non-conservation factors, and conservation measures already financed by the Company.

Paying customers for energy reductions that would have occurred anyway for other reasons, Staff states, does not maximize ratepayer benefits from the Buy-Back program.

Staff's analysis concludes that the program is worthwhile because all customers will benefit in varying degrees due to the high market prices for electricity. Staff notes that the Company's Schedule 90 conservation programs include a recently implemented compact fluorescent light bulb give away and a low interest loan program that are available to all households and businesses.

Noting that the program reduces power supply costs that would otherwise flow through the PCA, Staff recommends that program costs be subject to recovery through the PCA as are other reasonable incurred power supply costs. Staff further recommends that a separate subaccount be established to track all costs associated with tariff Schedule 92. Staff also recommends that the Company include Staff in its monthly distribution of results to facilitate Staff's review of the program. Staff additionally recommends a final accounting of the program results to assess program impacts and evaluate benefits.

Staff believes that "lost revenue" which can be legitimately attributed to the Buy-Back Program should be subject to recovery. However, Staff has identified several factors including weather, existing conservation programs and changes in households that can impact energy consumption from year to year. The Company, Staff states, should not expect to recover lost revenue when those are the reasons for energy reductions. Even the Company, Staff notes, has established a 5% KWh threshold before customers are eligible for payments to account for non-program-related reductions.

In recent cases, Staff notes, the Commission required that each company requesting lost revenue, work with Staff and other interested parties to establish an acceptable lost revenue recovery methodology. Staff recommends that Staff and Company work to resolve the lost revenue issue prior to any request for program cost recovery consistent with the other buy-back and customer exchange programs previously approved by the Commission.

Avista Reply

Avista contends that Staff's program evaluation represents an ultra-conservative analysis of the potential customer benefits of the program. Staff's assumed level of total energy savings is 1.25% of total customer usage. The Company believes that this amount is not a reasonable estimate and has increased the level to 2.5% of total usage. Using Staff's assumption that half of the kilowatt hours saved would receive the 5¢ incentive payment, the total incentive

payment also doubles under the Company's analysis compared to the Staff's, from \$218,750 to \$437,500.

Among other adjustments, the Company notes that Staff has not included an amount for lost revenue associated with the assumed level of kilowatt hour savings under the program. The Company includes 5¢ per kilowatt hour for lost revenue as an additional cost of the program. Lastly, in determining the "price paid for effective kilowatt hour savings" and "estimated value of the program", the Company notes that Staff excluded the assumed level of kilowatt hours saved by customers but that do not receive the incentive payment (first 5% of monthly kilowatt hours savings by customer). The assumed level of kilowatt hour savings in the 5% deadband, the Company notes, are kilowatt hour savings and should be included as a program benefit.

The accumulative effect of changes recommended by the Company to Staff's analysis increases the "estimated value of the program" from Staff's figure of \$728,125 to the Company's figure of \$3,582,300. The Company believes that the estimated customer benefits are very conservative, assuming an average customer energy savings of 2.5% and an average market power price of 28.5¢ per kilowatt hour during the term of the program.

With regard to the Company's energy Buy Back Programs, the Company's position on lost revenue is that "variations in customer consumption that can be attributed to other factors and can be reasonably measured" should be excluded from any lost revenue calculation. This would include variations in usage due to weather and changes in large load customer usage (Schedule 25) that can be identified. The Company has previously agreed to exclude an estimate of reduced energy consumption associated with conservation programs funded with revenue received from the DSM tariff (Schedule 91) from any lost revenue calculation. The Company recommends that the Commission specifically exclude changes in customer demographics in the determination of lost revenue, as these factors, the Company contends, cannot be reasonably measured.

COMMISSION FINDINGS

The Commission has reviewed the filings of record in Case No. AVU-E-01-06 including the Comments of the Commission Staff and the Reply Comments of the Company. We note that the underlying tariff was approved in interlocutory Order No. 28720. We find the reporting requirements recommended by Staff in its comments to be reasonable, i.e., separate subaccount for tracking costs associated with Tariff Schedule 92, monthly reporting and final accounting.

The Commission appreciates the comments of Staff and the Company regarding the issue of lost revenue. In our interlocutory Order in this case, we made a preliminary finding that the

Company's proposed accounting treatment (excepting lost revenue) and method for recovery of amounts paid/credited to customers and related program expense was reasonable. We continue in that belief. Regarding lost revenue, we note that the parties appear to be making progress in establishing an acceptable lost revenue recovery methodology. We encourage the parties to continue working in this regard and to present an acceptable lost revenue recovery methodology prior to any request for Schedule 92 program cost recovery. This treatment of lost revenue, we find, is consistent with the other buyback and customer exchange programs previously approved by the Commission.

CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction over Avista Corporation dba Avista Utilities—Washington Water Power Division (Idaho), an electric utility, and the issues raised in Case No. AVU-E-01-06 pursuant to the authority granted in Idaho Code, Title 61 and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

ORDER

In consideration of the foregoing and as more particularly described above, IT IS HEREBY ORDERED and the Commission does hereby reaffirm its previously authorized implementation of the Avista electric Schedule 92 tariff.

IT IS FURTHER ORDERED and the Commission reaffirms its prior interlocutory finding that the Company's proposed accounting treatment (excepting lost revenue) and method for recovery of amounts paid/credited to customers and related program expense is reasonable. The Commission also requires the Company to follow the reporting requirements recommended by Staff.

IT IS FURTHER ORDERED and the Commission hereby directs the Company, Staff and other interested parties to establish an acceptable lost revenue recovery methodology and to present the methodology for Commission approval prior to any Company request for Schedule 92 program cost recovery.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this _____
day of December 2002.

PAUL KJELLANDER, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

DENNIS S. HANSEN, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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