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IDAHO PUBLIC UTILITIES COMMISSION

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. AVU-E-03-06

DIRECT TESTIMONY OF RONALD L. MCKENZIE

REPRESENTING AVISTA CORPORATION

1 Q. Please state your name, the name of your employer and your business address.

2 A. My name is Ronald L. McKenzie. I am employed by Avista Corporation at 1411
3 East Mission Avenue, Spokane, Washington.

4 Q. In what capacity are you employed?

5 A. I am employed by Avista as Manager of Regulatory Accounting in the Rates and
6 Regulation Department.

7 Q. Please state your educational background and professional experience.

8 A. I graduated from Eastern Washington University in 1973 with a Bachelor of Arts
9 Degree in Business Administration, majoring in Accounting. I joined the Company in September
10 1974. I obtained a Master of Business Administration Degree from Eastern Washington
11 University in 1989. I have attended several utility accounting and ratemaking courses and
12 workshops. I have held various accounting positions within the Company. I have served in the
13 Rates Department for the majority of my career with the Company.

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

15 A. My testimony provides a status report of the accounting entries and account
16 balances related to the Idaho Power Cost Adjustment (PCA) for the twelve months ended June
17 30, 2003. The unrecovered deferral balance at June 30, 2003 is \$27,843,108. I explain that if the
18 Company's proposal to extend the surcharge is approved, there would be no change to the
19 Company's existing rate or to the existing PCA tariff, Schedule 66.

20 Q. Are you sponsoring an Exhibit?

21 A. Yes. I am sponsoring Exhibit No. ____ (RLM-1), consisting of the existing PCA
22 tariff, Schedule 66.

1 Q. Would you please show the change in the unrecovered deferral balance from June
2 30, 2002 to June 30, 2003?

3 A. Yes. The change in the unrecovered deferral balance from June 30, 2002 to June
4 30, 2003 is shown below:

5	Unrecovered balance at June 30, 2002	\$45,600,228
6	Net Deferral Activity (July 2002 - June 2003) (see below)	6,789,503
7	Amortizations Related to Surcharge Revenues (July 2002 - June 2003)	<u>-24,546,623</u>
8	Unrecovered balance at June 30, 2003	<u>\$27,843,108</u>

9 Q. Would you please show the major components of the deferral account activity
10 amount of \$6,789,503 shown above?

11 A. Yes. Listed below are the major components of the deferral account activity that
12 were recorded for the twelve-month period July 2002 through June 2003:

13 Deferral Activity Detail

14	Net Increase in Power Supply Cost	\$23,383,629
15	Centralia Capital and O&M Credit	-2,817,996
16	PGE Monetization Accelerated Amortization	-13,855,680
17	Transfer Small Generation Capital Costs and Interest	-921,184
18	Intervenor Funding Payment	1,138
19	Interest	<u>999,596</u>
20	Net Deferral Activity (July 2002 - June 2003)	<u>\$6,789,503</u>

21 Q. Would you please explain the components listed above?

22 A. Yes. The net increase in power supply cost of \$23,383,629 represents the Idaho
23 jurisdictional share of 90% of the excess power costs incurred by Avista for the twelve months
24 ended June 30, 2003. Mr. Storro discusses the components that make up this amount. The
25 remaining 10% of the excess power costs were absorbed by the Company.

26 The Centralia capital and O&M credit of-\$2,817,996 reflects the removal of operation
27 and maintenance expense, depreciation, taxes, and return on investment as those costs no longer

1 exist as a result of the sale of the plant. The credit is reflected at 100% in accordance with Order
2 No. 28876 dated October 11, 2001 in Case No. AVU-E-01-11.

3 The -\$13,855,680 figure relates to the final amount of accelerated amortization of the
4 Portland General Electric (PGE) contract credit balance for the months of July 2002 through
5 December 2002. The Commission authorized the accelerated amortization at page 12 of Order
6 No. 28876. The normal amortization and the accelerated amortization of the PGE contract credit
7 balance ended December 31, 2002.

8 The -\$921,184 figure represents the removal from the PCA deferral account of capital
9 costs and associated carrying charges related to small generator options. This adjustment is in
10 accordance with page 17 of Order No. 29130 dated October 11, 2002 in Case No. AVU-E-02-6,
11 and Attachment A to the Order.

12 The \$1,138 relates to an intervenor funding payment that resulted from Order No. 29147
13 in Case No. GNR-E-02-1 dated October 31, 2002 dealing with the qualifications of PURPA
14 projects. Page 4 of the Order directed the three participating utilities to equally share the
15 intervenor funding amount, to book the payment as a purchased power expense and "...to
16 recover same in their next Power Cost Adjustment (PCA) filing or general rate case."

17 The \$999,596 interest amount represents interest for the twelve-month period July 1,
18 2002 through June 30, 2003. Interest has been calculated using the Customer Deposit Rate (July-
19 December 2002 of 4%, January-June 2003 of 2%). In Case No. AVU-E-03-04 the Company has
20 requested that the allowed interest rate to apply to PCA balances be 2% above the Customer
21 Deposit Rate beginning January 1, 2003. The Company's Application in that case is still under
22 consideration.

1 Q. Was a notice supplied to customers regarding the Company's proposal to continue
2 the existing PCA surcharge for an additional twelve months?

3 A. Yes. A notice is being provided as a bill insert to Idaho electric customers
4 beginning August 12, 2003. The notice indicates that the Company has filed a request with the
5 Commission to continue the existing 19.4% surcharge for an additional twelve months. The
6 existing surcharge amounts to approximately \$24 million on an annual basis.

7 Q. Is the Company continuing with its customer bill paying assistance programs?

8 A. Yes. The Company has several programs available to assist customers with paying
9 their bills. Avista's comfort level billing program offers customers the option of averaging their
10 bills and paying the same monthly amount all year long in order to smooth out the seasonal highs
11 and lows. Under the C.A.R.E.S. (Customer Assistance Referral and Evaluation Service)
12 program, specially trained customer service representatives provide referrals to area agencies and
13 churches for customers with special needs for help with housing, utilities, medical assistance, etc.
14 LIHEAP (Low Income Heating Energy Assistance Program) is a Federal program aimed to help
15 low income customers pay their electric and gas bills. These funds are distributed through local
16 agencies. Idaho customers who have children, elderly or infirmed in the household may qualify
17 for the winter moratorium plan. From December 1 through February 28, customers are not
18 required to pay their bills in full and can defer payment or make partial payments. The Company
19 also works out payment arrangements with customers having difficulty paying their bills.

20 In addition, the Company has convenience options that help those who need flexibility,
21 but are generally able to pay. APS, or automatic payment service (money is deducted from
22 checking account automatically each month), is a good example. Other popular services include

1 debit and credit card service, check-by-phone or over the web, preferred due date (the customer
2 picks a more convenient date to pay than the one the Company states on the bill), and e-billing.

3 Q. If the Company's proposal to extend the surcharge is approved, would it require a
4 change to the current PCA tariff, Schedule 66?

5 A. No. In fact, the Company is proposing that the current Schedule 66 remain in place
6 as currently on file. The existing Schedule 66 contains the currently effective surcharge rates that
7 the Company is requesting be extended for an additional twelve months. Under the Special
8 Terms and Conditions on the tariff is a statement that, "The rates set forth under this Schedule
9 are subject to periodic review and adjustment by the IPUC based on the actual balance of
10 deferred power costs." Page 1 of Exhibit No. ____ (RLM-1) is a copy of Schedule 66.

11 Q. What do current projections show regarding recovery of the power cost deferral
12 balance?

13 A. Current projections indicate that with the continuation of the 19.4% surcharge, the
14 PCA deferral balance would reach zero in mid 2005. Therefore, Avista currently anticipates the
15 need to extend the surcharge for at least an additional, partial period beyond October 2004. The
16 actual point when the deferral balance reaches zero is dependent upon factors such as
17 hydroelectric conditions, wholesale market prices, contract changes, etc., during the relevant
18 period.

19 Q. Does that conclude your testimony?

20 A. Yes it does.

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. AVU-E-03-06

EXHIBIT NO. 1 (RLM-1)

WITNESS: RONALD L. MCKENZIE, AVISTA CORPORATION

AVISTA CORPORATION
d/b/a Avista Utilities

SCHEDULE 66

TEMPORARY POWER COST ADJUSTMENT - IDAHO

APPLICABLE:

To Customers in the State of Idaho where the Company has electric service available. This Power Cost Adjustment shall be applicable to all retail customers for charges for electric energy sold and to the flat rate charges for Company-owned or Customer-owned Street Lighting and Area Lighting Service. This Rate Adjustment is designed to recover or rebate a portion of the difference between actual and allowed net power supply costs.

MONTHLY RATE:

The energy charges of the individual rate schedules are to be increased by the following amounts:

Schedule 1	
0 – 600 kwhs	0.939¢ per kwh
over 600 kwhs	1.092¢ per kwh
Schedules 11 & 12	1.391¢ per kwh
Schedules 21 & 22	1.011¢ per kwh
Schedules 25	0.607¢ per kwh
Schedules 31 & 32	0.888¢ per kwh

Flat rate charges for Company-owned or Customer-owned Street Lighting and Area Lighting Service are to be increased (decreased) by the following percentage:

Schedules 41-49	19.37%
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SPECIAL TERMS AND CONDITIONS:

The rates set forth under this Schedule are subject to periodic review and adjustment by the IPUC based on the actual balance of deferred power costs.

Service under this schedule is subject to the Rules and Regulations contained in this tariff.

The above Rate is subject to increases as set forth in Tax Adjustment Schedule 58.

Issued July 17, 2001

Effective October 12, 2001

Issued by Avista Utilities
By

Thomas D. Dukich, Director of Rates & Regulatory Affairs

Thomas D. Dukich

Exhibit No. ___ (RLM-1)
Case No. AVU-E-____
Avista
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