FY 2014–2015

DRAFT
AVERAGE SYSTEM COST REPORT

Avista Corporation

November 2012

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FY 2014–2015

DRAFT
AVERAGE SYSTEM COST REPORT

FOR

Avista Corporation
Docket Number: ASC-14-AV-01

PREPARED BY
BONNEVILLE POWER ADMINISTRATION
U.S. DEPARTMENT OF ENERGY

November 2012

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1 FILING DATA

Utility: **Avista Corporation**
1411 E. Mission Ave.
Spokane, Washington 99220-0500
http://www.avistautilities.com/residential/pages/default.aspx

Parties to the Filing:

Investor-Owned Utilities (IOUs):
Idaho Power Company (Idaho Power)
PacifiCorp
Portland General Electric (Portland General)
Puget Sound Energy (Puget)

Consumer-Owned Utilities (COUs):
Public Utility District No. 1 of Clark County (Clark)
Public Utility District No. 1 of Snohomish County (Snohomish)

Other Participants to the Filing:
Idaho Public Utility Commission (IPUC)
Public Utility Commission of Oregon (OPUC)

Average System Cost Base Period: Calendar Year (CY) 2011

Effective Exchange Period: Fiscal Years (FY) 2014–2015, October 1, 2013 – September 30, 2015

Statement of Purpose:

Section 5(c) of the Pacific Northwest Electric Power Planning and Conservation Act ("Northwest Power Act" or "Act"), 16 U.S.C. § 839c(c), established the Residential Exchange Program ("REP"). Under the REP, any Pacific Northwest utility interested in participating in the REP may offer to sell power to BPA at the average system cost of the utility's resources. In exchange, BPA offers to sell an "equivalent amount of electric power to such utility for resale to that utility's residential users within the region" at a rate established pursuant to Sections 7(b)(l) and 7(b)(3) of the Act. H.R. Rep. No. 976, Pt. I, 96th Cong., 2d Sess. 60 (1980). The cost benefits established by the REP are passed through directly to the exchanging utilities' residential and small-farm consumers. 16 U.S.C. § 839c(c)(3).

The Northwest Power Act grants to BPA's Administrator the authority to determine utility average system costs (ASCs) based on a methodology established in a public consultation

proceeding. *See* 16 U.S.C. § 839c(c)(7). In designing this methodology, the Act specifically requires the Administrator to exclude from ASC three categories of costs:

> (A) the cost of additional resources in an amount sufficient to serve any new large single load of the Utility;
>
> (B) the cost of additional resources in an amount sufficient to meet any additional load outside the region occurring after the effective date of this Act; and
>
> (C) any costs of any generating facility which is terminated prior to initial commercial operation.

Id.

Bonneville Power Administration (BPA) has conducted an ASC review to determine Avista's ASC for FY 2014–2015 based on BPA's 2008 ASC Methodology (2008 ASCM). *See* 18 C.F.R. Part 301, *Sales of Electric Power to the Bonneville Power Administration, Revisions to Average System Cost Methodology*. 74 Fed. Reg. 47,052 (2009).

This FY 2014–2015 Draft Average System Cost Report (Draft ASC Report) describes the process and evaluation pursuant to the 2008 ASCM and the results of BPA's preliminary ASC Filing review.

For more information regarding the 2008 ASCM, please refer to the Commission's final ruling and the *2008 ASCM*, 18 C.F.R. Part 301 *(*2009), available at http://www.bpa.gov/Finance/ResidentialExchangeProgram/Documents/2008%20FERC%20Published%20ASCM_FRN_74_FR_47052-01_9-30-09_1741.pdf, and the *Average System Cost Methodology Final Record of Decision (2008 ASCM ROD)*, June 30, 2008, available at http://www.bpa.gov/Finance/ResidentialExchangeProgram/Pages/default.aspx.

General information regarding the ASC Review Process can be found at http://www.bpa.gov/Finance/ResidentialExchangeProgram/Pages/default.aspx.

NOTE: If the filing utility or an intervenor wishes to preserve any issue for subsequent administrative or judicial appeal, it must raise such issue in its comments on BPA's ASC Draft Reports. If a party fails to do so, the issue is waived for subsequent appeal. *See* Rules of Procedure for BPA's ASC Review Processes, § 3.6.1.3 ("Rules of Procedure").

2 AVERAGE SYSTEM COST SUMMARY

2.1 Avista Corporation Background

Avista Corporation (Avista) is an investor-owned utility engaged in the production, transmission, and distribution of electricity, the distribution of natural gas, and other energy-related businesses. Avista's electric and gas service territory covers approximately 30,000 square miles in the states of Idaho, Oregon, and Washington. The company, based in Spokane, Washington, serves more than 360,000 electric and 321,000 natural gas customers and is subject to state and federal regulations.

The focus of this report concerns Avista's electric power generation and transmission system in eastern Washington and western Idaho. Avista's installed generation capacity of 1,747 megawatts (MW) includes eight hydroelectric projects on the Spokane and Clark Fork rivers; four large natural gas-fired plants (Coyote Springs 2, Spokane N.E., Boulder Park, and Rathdrum); a 15 percent share of Colstrip 3 & 4; and one wood waste (biomass) plant (Kettle Falls). Avista serves 360,000 electric customers across 2,100 miles of transmission lines and 18,300 miles of distribution lines. Generation statistics for 2011 are shown in the table below.

Avista 2011
Electric Generation and Energy

Type	Capacity (MW)	Percent	Energy (MWh)	Percent
Hydro	914	53	4,534,293	33
Coal	233	13	1,432,719	10
Natural Gas	542	31	722,221	5
Biomass	51	3	291,125	2
Other	7	0	1,375	0
Resources			6,724,582	49
Total	**1,747**	**100**	**6,981,733**	**100**

Avista Corporation, 2011 FERC Form No. 1, April 16, 2012.

2.2 Base Period ASC

The 2008 ASCM requires utilities participating in the ASC Review Process, both IOUs and COUs, to submit to BPA "Base Period" financial and operational information. The Base Period is defined as the calendar year of the most recent FERC Form 1 data for IOUs, and most recent audited financial statements (Annual Reports), and underlying accounting system data for COUs. For purposes of this FY 2014–2015 filing period, the Base Period is CY 2011. The submitted

information includes the "Appendix 1," an Excel-based workbook populated with financial and load data used in calculating the Base Period ASC.

The table below summarizes the CY 2011 Base Period ASC based on (1) the information contained in Avista's June 4, 2012 ASC Filing, including any errata ("As-Filed"), and (2) as adjusted by BPA in this Draft ASC Report ("Draft Report"). This table does not reflect the Exchange Period (defined below) ASC, which is noted in subsequent tables.

Table 2.2-1: CY 2011 Base Period ASC
(Results of Appendix 1 calculations)

	June 4, 2012 As-Filed	**November 14, 2012 Draft Report**
Production Cost	$475,796,876	$468,573,321
Transmission Cost	$86,115,555	$85,868,984
(Less) NLSL Costs	$9,272,203	$9,268,278
Contract System Cost (CSC)	**$552,640,229**	**$545,174,027**
Total Retail Load (MWh)	9,035,133	9,035,133
(Less) NLSL	150,439	150,439
Total Retail Load (Net of NLSL)	8,884,694	8,884,694
Distribution Losses	415,615	415,615
Contract System Load (CSL)	**9,300,309**	**9,300,309**
CY 2011 Base Period ASC (CSC/CSL)	**$59.42/MWh**	**$58.62/MWh**

2.3 FY 2014–2015 Distribution Loss Factor

The 2008 ASCM requires a utility to include with its ASC Filing a current distribution loss analysis as described in Endnote e. *See* 18 C.F.R. § 301, End. e.

The losses shall be the distribution energy losses occurring between the transmission portion of the utility's system and the meters measuring firm energy load. The distribution loss can be measured using one of the three methods as outlined in Endnote e of the 2008 ASCM: (1) a loss study, (2) revenue grade meter readings, or (3) calculating a five-year average total system loss factor using data from the FERC Form 1 or comparable data source.

BPA Staff reviewed Avista's supporting Distribution Loss Factor calculations. For the purposes of this Draft Report, BPA Staff used the Distribution Loss Factor of 4.60 percent included in Avista's As-Filed Appendix 1.

2.4 FY 2014–2015 Exchange Period ASC

BPA and the intervenors review, evaluate, and comment on the Appendix 1 historical costs and forecast loads submitted in the ASC Review Process. Once the Base Period ASC is determined, the cost data is escalated forward using the "ASC Forecast Model," an Excel-based forecast model, to the midpoint of the Exchange Period, which in this instance is October 1, 2014. For purposes of this FY 2014–2015 ASC Review Period, the Exchange Period is October 1, 2013 to September 30, 2015 ("Exchange Period").

A utility's As-Filed Exchange Period ASC may increase or decrease by the time of the Draft or Final ASC Report because of adjustments made during the ASC Review Process, such as updates to BPA's natural gas and market price forecasts. For all utilities, BPA updated its natural gas and market price forecasts. For the COUs only, BPA updated their RHWMs and the associated Tiered Rates. See the "Inputs" and "Tiered Rates" tabs of the ASC Forecast Model for the utility's (1) As-Filed and (2) BPA-Adjusted models for additional details.

Table 2.4-1 identifies the Exchange Period ASC the utility filed on June 4, 2012, including errata if filed, and as adjusted by BPA for this Draft Report. The ASC shown will be the utility's ASC for the entire Exchange Period unless the utility acquires (or loses) a major resource as defined by the 2008 ASCM and Section 2.5 of this Report; or the utility makes a New Large Single Load adjustment as described in Section 2.6.

Table 2.4-1: Exchange Period FY 2014–2015 ASC ($/MWh) With No New Resource Additions

Date	June 4, 2012 As-Filed	November 14, 2012 Draft Report
FY 2014–2015	56.49	57.13

2.5 ASC New Resource Additions

Under the 2008 ASCM, a utility's ASC may be adjusted to reflect the addition or loss of a major new resource if such resource commences commercial operation (or ceases production) at any point between the end of the Base Period and the end of the Exchange Period. Such new resource must be used to meet a utility's retail load during the Exchange Period.

Before a utility's ASC is adjusted to reflect the addition or loss of a major new resource, the utility must demonstrate that the proposed resource will meet the materiality requirements set forth in the 2008 ASCM. Section 301.4(c) of the 2008 ASCM provides that only resources that affect a utility's Base Period ASC by 2.5 percent or more will be considered major new resources. 18 C.F.R. § 301.4(c)(4). The 2008 ASCM allows utilities to submit stacks of individual resources that, when combined, meet the materiality threshold. *Id.* However, each

individual resource in the stack must result in a change in Base Period ASC of 0.5 percent or more. *Id.* See also Section 3.2.14 of this Draft Report.

For ASC calculation purposes, a new resource adjustment may be included in the utility's ASC at the commencement of the Exchange Period if such new resource becomes commercially operational (or ceases production) after the Base Period, but before the Exchange Period begins. In order to be included in the utility's Exchange Period ASC, a New Resource Attestation must be received by BPA no later than the tenth (10) business day after the Exchange Period begins.

Table 2.5-1 below summarizes the new major resource additions, prior to any NLSL adjustments, that are projected to become commercially operational, and major resource reductions that will cease to be commercially operational, prior to the beginning of the Exchange Period (*i.e.* January 1, 2012 – September 30, 2013).

Avista has no major new resources coming on line prior to the FY 2014-2015 Exchange Period.

Table 2.5-1: New Resource Additions Coming On Line *Prior to* the Exchange Period ($/MWh)

As-Filed FY 2014–2015 Exchange Period ASC				
Resource	**N/A**	**N/A**	**N/A**	**N/A**
Expected On Line Date				
Delta*				

Draft Report FY 2014–2015 Exchange Period ASC				
Resource	**N/A**	**N/A**	**N/A**	**N/A**
Expected On Line Date				
Delta*				

*The Delta is the incremental change in the ASC as new resources come on line.

Resources that commence commercial operations during the Exchange Period are reflected in ASC following receipt by BPA of the utility's New Resource Attestation. Table 2.5-2 below summarizes the new major resource additions prior to any NLSL adjustments that are projected to become commercially operational and major resource reductions that will cease to be commercially operational during the Exchange Period (*i.e.*, October 1, 2013–September 30, 2015).

Although the 2008 ASCM permits a utility's ASC to be adjusted to reflect the inclusion of a major new resource, as part of the 2012 Residential Exchange Program Settlement Agreement, BPA Contract No. 11PB-12322 (2012 REP Settlement Agreement), all six regional investor-owned utilities agreed to waive this right: "Each IOU waives . . . the right to include in its ASC,

. . . the cost of any major resource addition forecasted to occur during the Exchange Period as allowed by the ASC Methodology." 2012 REP Settlement, § 6.4. Nevertheless, for informational purposes, BPA has retained Table 2.5-2 in the ASC Report because the 2012 REP Settlement is currently being challenged in the U.S. Court of Appeals for the Ninth Circuit. BPA intends to continue to identify major resource additions in its Draft and Final ASC Reports until such time as all legal challenges to the 2012 REP Settlement have been resolved. The FY 2014-2015 ASC calculation does not include any adjustment for new resources during the Exchange Period for setting rates for the FY 2014–2015 Rate Period.

Avista has no new resources coming on line during the FY 2014-2014 Exchange Period.

Table 2.5-2: New Resource Additions Coming On Line *During* the Exchange Period ($/MWh)

As-Filed FY 2014–2015 Exchange Period ASC				
Resource	**N/A**	**N/A**	**N/A**	**N/A**
Expected On Line Date				
Delta*				

Draft Report FY 2014–2015 Exchange Period ASC				
Resource	**N/A**	**N/A**	**N/A**	**N/A**
Expected On Line Date				
Delta*				

*The Delta is the incremental change in the ASC as the new resources come on line.

2.6 NLSL Adjustment

A new large single load (NLSL) is any load associated with a new facility, an existing facility or an expansion of an existing facility that was not contracted for or committed to (CF/CT) prior to September 1, 1979, and which will result in an increase in power requirements of ten average megawatts (aMW) or more in any consecutive 12-month period. 16 U.S.C. § 839a(13)(A)-(B).

By law, NLSLs and the associated resource costs in an amount sufficient to serve them are not included in utilities' ASCs. *See* 16 U.S.C. § 839c(c)(7)(A). BPA determines the cost of resources in an amount sufficient to serve NLSLs through the methodology provided in Endnote d of the 2008 ASCM.

NLSLs are not determined in ASC review proceedings. Instead, NLSLs are identified through a separate process conducted by BPA's NLSL Staff tasked with implementing BPA's NLSL Policy. The ASC Review Process determines the cost of resources in an amount sufficient to serve the utility's NLSL and then excludes these costs from the utility's ASC.

Avista has one NLSL on record. All resource costs associated with this NLSL have been removed from its ASC.

Table 2.6-1: New Large Single Loads Under Review

As-Filed FY 2014–2015 NLSL Load Amount (MWh)	
NLSL(s)	**Load**
N/A	N/A

Draft Report FY 2014–2015 NLSL Load Amount (MWh)	
NLSL(s)	**Load**
N/A	N/A

Table 2.6-2: New Large Single Loads that Begin Taking Power *Prior to* Exchange Period

As-Filed FY 2014–2015 Exchange Period ASC				
Customer	**N/A**	**N/A**	**N/A**	**N/A**
Expected Start Date				

Draft Report FY 2014–2015 Exchange Period ASC				
Customer	**N/A**	**N/A**	**N/A**	**N/A**
Expected Start Date				

Table 2.6-3: New Large Single Loads that Begin Taking Power *During* the Exchange Period

As-Filed FY 2014–2015 Exchange Period ASC				
Customer	**N/A**	**N/A**	**N/A**	**N/A**
Expected Start Date				

Draft Report FY 2014–2015 Exchange Period ASC				
Customer	**N/A**	**N/A**	**N/A**	**N/A**
Expected Start Date				

2.7 NLSL Formula Rate

During two separate customer workshops held on February 2 and April 11, 2012, BPA Staff proposed a formula rate calculation for removing resource costs from a utility's ASC when an NLSL occurs during the Exchange Period. The NLSL formula rate was developed to mitigate two issues that arise when a large industrial/commercial load has been determined to be an NLSL and has a determined NLSL start date.

In previous Exchange Periods, BPA calculated the costs of serving a prospective NLSL in the ASC Review Process based on forecasts of the projected NLSL MWh and a start date as provided by the filing utility. BPA Staff would then calculate two ASCs for the utility: an ASC with the NLSL coming on line as scheduled (with an associated reduction in ASC) and an ASC with the NLSL not coming on line (and no associated reduction in ASC). This approach for determining the costs of service to an NLSL, however, led to additional administrative and calculation issues. For one, new NLSL(s) start dates may differ from the forecast; and second, the actual MWh amounts of the NLSL may differ substantially from forecast amounts contained in the Final ASC Report.

To address the potential disconnect between the forecast amount and start date of an NLSL, BPA Staff proposed adopting a formula rate. In late April 2012, parties submitted formal responses to the NLSL topic discussed at the February 2 and April 11 workshops. Avista, Idaho Power, NorthWestern, PGE, PAC, and Puget all submitted comments in support of the NLSL Formula Rate. With the exception of PGE, all the parties agreed with BPA's formula rate calculation proposal to calculate a utility's ASC when a new NLSL materializes. PGE, in its response, commented on issues outside the scope of the proposed NLSL Formula Rate.

For purposes of the Draft Report, no utility identified potential NLSLs taking power prior to or during the FY 2014–2015 Exchange Period. However, in the event a utility learns it will begin to serve an NLSL during this period, even though the NLSL is not identified herein, BPA Staff will review and evaluate the NLSL, and as necessary, calculate a new ASC using the inputs and formula method as defined below:

$$\text{ASC} = \frac{\text{Contract System Cost} - (\text{Cost of Serving NLSL} * \text{Actual NLSL MWh})}{\text{Contract System Load} - \text{Actual NLSL MWh}}$$

Tables 2.7.-1 and 2.7-2 show the inputs necessary to calculate a utility's Exchange Period ASC using the above NLSL Formula Rate. The tables include the inputs Contract System Cost, Cost of Serving NLSL, and Contract System Load. A utility's Contract System Cost and Cost of Serving NLSL will change with each new resource addition. Therefore, Table 2.7-1 provides the various combinations of new resource additions possible and the corresponding Contract System Cost and Cost of Serving NLSL. Table 2.7-2 contains the utility's Contract System Load which remains unchanged with the addition of new resources.

Table 2.7-1: NLSL Formula Rate Inputs:
Contract System Cost & Cost of Serving NLSL

Inputs for both *Prior to* and *During* the Exchange Period			
	New Resource	**Contract System Cost**	**Cost of Serving NLSL**
None	No new resources coming on line	**$558,413,695**	**$60.74/MWh**
Prior to	N/A	N/A	N/A
During	N/A	N/A	N/A

Table 2.7-2: Formula Rate Input:
Contract System Load

FY 2014–2015 **Contract System Load**
9,774,241 MWh

3 FILING REQUIREMENTS

3.1 ASC Review Process – FY 2014–2015

Utilities' ASCs are established in ASC Review Processes. The ASC Review Processes for FY 2014–2015 began on June 4, 2012 with the submittal of ASC Filings by the following eight utilities: Avista, Clark, Idaho Power, NorthWestern, PacifiCorp, Portland General, Puget, and Snohomish. An "ASC Filing" consists of two Excel-based models developed by BPA (the Appendix 1 workbook and the ASC Forecast Model) and all supporting data and documentation provided by the utility.

Notice of the ASC Review Processes was provided on BPA's Secure REP Web site and via email. Prior to the June 4, 2012 filing deadline, the utilities posted ASC Filings on BPA's Secure REP Web site. Parties interested in reviewing a utility's ASC had the opportunity to request access to the utility's ASC Filing by contacting BPA. Parties wishing to formally intervene in a utility's ASC proceeding could file an intervention by the date identified in BPA's ASC Review Process Schedule. Intervenors were afforded multiple opportunities to request data, submit comments, and raise issues with the utilities' ASCs. The filing utilities, in turn, were afforded opportunities to respond to requests for data, raise and respond to issues, and answer any questions relative to the ASC Filings.

This Draft ASC Report reflects BPA Staff's findings in its initial review of Avista's ASC Filing and addresses, preliminarily, the issues and questions raised by the utility, intervenors, and BPA Staff during the ASC Review Process. BPA's final decisions and determinations, including supporting justification, will be published in the Final ASC Report, July 2013, for each participating utility.

For details of the ASC Review Period and guidelines, please see the *ASCM Rules of Procedure for the ASC Review Process* (*Rules of* Procedure)available at http://www.bpa.gov/Finance/ResidentialExchangeProgram/Pages/default.aspx.

3.2 Explanation of Appendix 1 Schedules

The Appendix 1 consists of a series of seven schedules and other supporting information that present the data necessary to calculate a utility's ASC. The schedules and supporting data include the following:

1. Schedule 1 – Plant Investment/Rate Base (Rate Base)
2. Schedule 1A – Cash Working Capital Calculation (Cash Working Capital)
3. Schedule 2 – Capital Structure and Rate of Return (Rate of Return)
4. Schedule 3 – Expenses
5. Schedule 3A – Taxes
6. Schedule 3B – Other Included Items (Other Items)
7. Schedule 4 – Average System Cost

8. Purchased Power and Sales for Resale (3-Year PP & OSS Worksheet)
9. Load Forecast
10. Distribution Loss Calculation (Distribution Loss Calc)
11. Distribution of Salaries and Wages (Salaries)
12. Ratios
13. New Resources – Individual and Grouped
14. Materiality – Individual and Grouped
15. New Large Single Loads (NLSL Base New-Calc)
16. Tiered Rates

3.2.1 Schedule 1 – Plant Investment/Rate Base

Schedule 1 of the Appendix 1 establishes the utility's Rate Base. The Rate Base computation begins with a determination of the Gross Electric Plant-In-Service's historical costs for Intangible, General, Production, Transmission, and Distribution Plant.

For exchanging utilities that provide electric, natural gas, and water services, only the portion of common plant allocated to electric service is included. These values (and all subsequent values) are entered into the Appendix 1 as line items based on the FERC Uniform System of Accounts. Each line item (account) is functionalized to Production, Transmission, and/or Distribution/Other in accordance with the functionalizations prescribed in Table 1 of the 2008 ASCM.

The Net Electric Plant-In-Service is determined next by entering and functionalizing depreciation and amortization reserves in the Appendix 1 and adjusting the above-calculated Gross Electric Plant-In-Service for the depreciation and amortization reserves.

Total "Rate Base" is then determined by adjusting Net Electric Plant for Cash Working Capital (calculated in Schedule 1A), Utility Plant, Property and Investments, Current and Accrued Assets, Deferred Debits, Current and Accrued Liabilities, and Deferred Credits.

3.2.2 Schedule 1A – Cash Working Capital

Cash Working Capital is an estimate of investor-supplied cash used to finance operating costs during the time lag before revenues are collected. This approach (cash) ignores the lag in recovery of non-cash costs of service (depreciation), deferred taxes, and other items. The Cash Working Capital concept is widely used by state commissions and is the basic premise of the Commission's proposed working capital formula. The purpose of working capital is to compensate a utility for funds used in day-to-day operations.[1]

Cash Working Capital is a ratemaking convention that is not included in the FERC Uniform System of Accounts, but is a part of all electric utility rate filings as a component of Rate Base. To determine the allowable amount of Cash Working Capital in Rate Base for a utility, BPA allows one-eighth of the functionalized costs of total production expenses, transmission

[1] James C. Bonbright *et al*., *Principles of Public Utility Rates* 244 (2d ed. 1988).

expenses, and administrative and general expenses, less purchased power, fuel costs, and public purpose charges into Rate Base. *See* 18 C.F.R. § 301, End. f.

3.2.3 Schedule 2 – Capital Structure and Rate of Return

Schedule 2 calculates the utility's rate of return (ROR) on the utility's Rate Base developed in Schedule 1.

The 2008 ASCM requires IOUs to use the weighted cost of capital (WCC) from their most recent state commission rate orders. The return on equity (ROE) used in the WCC calculation is grossed-up for Federal income taxes at the marginal Federal income tax rate using the formula described in Endnote b of the 2008 ASCM. *See* 18 C.F.R. § 301, End. b. The 2008 ASCM requires a COU to use a rate of return equal to the COU's weighted cost of debt.

3.2.4 Schedule 3 – Expenses

This schedule represents operations and maintenance expenses for the production, transmission, and distribution of electricity. Each expense item is functionalized as outlined in Table 1 of the 2008 ASCM. Also included in Schedule 3 are additional expenses associated with customer accounts, sales, administrative and general expense, conservation program expense, and depreciation and amortization expense associated with Electric Plant-in-Service. The sum of the items in Schedule 3 reflects the Total Operating Expenses for the utility.

3.2.5 Schedule 3A – Taxes

This schedule presents allowable ASC costs for Federal employment tax and certain non-Federal taxes, including property and unemployment taxes. COUs are allowed to include state taxes paid "in lieu" of property taxes. State income taxes, franchise fees, regulatory fees, and city/county taxes are accounted for in this schedule but are functionalized to Distribution/Other and therefore not included in ASC. Taxes and fees for each state listed are grouped together and entered as "combined" line items for Appendix 1 purposes.

Federal income taxes are included in ASC and are calculated, as applicable, in Schedule 2-Capital Structure and Rate of Return.

3.2.6 Schedule 3B – Other Included Items

This schedule includes revenues from the disposition of plant, sales for resale, and other revenues, including electric revenues and revenues from transmission of electricity for others (wheeling). The revenues in this schedule are deducted from the total costs of each utility.

3.2.7 Schedule 4 – Average System Cost ($/MWh)

This schedule summarizes the cost information calculated in Schedules 2 through 3B: Capital Structure and Rate of Return, Expenses, Taxes, and Other Included Items. The schedule also

identifies the Contract System Cost and Contract System Load, as defined below, and calculates the utility's Base Period ASC ($/MWh).

Contract System Cost
Contract System Cost (CSC) includes the utility's costs for production and transmission resources, including power purchases and conservation measures, which are includable in and subject to the provisions of the 2008 ASCM. CSC does not include the cost of serving a utility's NLSLs. CSC is the numerator in the ASC calculation.

Contract System Load (MWh)
Contract System Load (CSL) is the total regional retail load of a utility, adjusted for distribution losses and NLSLs. CSL is the denominator in the ASC calculation.

3.2.8 Purchased Power and Sales for Resale

Purchased Power is an account in Schedule 3 – Expenses, and includes all power purchases the utility made during the year, including power exchanges. Sales for Resale is an account in Schedule 3B – Other Included Items, and includes power sales to purchasers other than ultimate consumers. Listed in the information for both accounts is the statistical classification code for all transactions. Please refer to the FERC Form 1, pages 310-311 for Sales for Resale, and pages 326-327 for Purchased Power, for identification of the classification codes.

3.2.9 Load Forecast

Each utility is required to provide a four-fiscal-year forecast beginning October 1 of the Base Year (FY 2012–2015) of its total retail load, as measured at the meter, and its qualifying residential and small-farm retail load, as measured at the retail meter. For the COUs only, the total retail forecast loads for the Exchange Period are the load forecasts as determined by BPA under the Tiered Rate Methodology (TRM).

The total retail and residential and small-farm load forecasts are adjusted for distribution losses and NLSLs when appropriate. The resulting load forecasts are the Contract System Load forecast and Exchange Load forecast, respectively.

3.2.10 Distribution Loss Calculation

Each utility is required to provide a current distribution loss study as described in Endnote e of the 2008 ASCM. *See* 18 C.F.R. § 301, End. e. The total retail and residential and small-farm load forecasts are adjusted for distribution losses (and NLSLs when appropriate).

3.2.11 Distribution of Salaries and Wages

This supporting tab is used to determine the Labor Ratio calculations. It includes salaries and wages from relevant operations and maintenance of the electric plant.

3.2.12 Ratios

The Ratio tab calculates all functionalization ratios by assigning costs included in the utility's FERC Form 1 on a pro rata basis using values taken from the gross plant data (Schedule 1) for Production, Transmission, and Distribution/Other functions, and data taken from the salary and wage tab for Labor functions. For COUs, comparable information comes from the detailed salaries and wages data used in the utilities' financial reports.

3.2.13 New Resources – Individual and Grouped

The 2008 ASCM allows a utility's ASC to adjust during the Exchange Period to reflect the addition or loss of a major new resource, subject to the materiality threshold of 2.5 percent. New resources are defined as any new production or new generating resource investments, new transmission investments, long-term generating contracts, pollution control and environmental compliance investments relating to generating resources, transmission resources or contracts, hydro relicensing costs and fees, and plant rehabilitation investments. *See* 18 C.F.R. § 301.4(c)(3)(i)-(vii).

See Section 2.5 for a discussion of ASC New Resource Additions.

To determine the effects of a major new resource addition or reduction on a utility's Exchange Period ASC, BPA performs one of the following calculations: (1) for new resources that are expected to be on line prior to the start of the Exchange Period, BPA projects the costs of the new resource forward to the midpoint of the Exchange Period; or (2) for new resources that are expected to be on line during the Exchange Period, BPA calculates the new resource cost as if the resource came on line at the midpoint of the Exchange Period.

Each resource that satisfies the minimum materiality threshold of 0.5 percent may be entered individually in the "New Resources – Individual" tab. Resources that do not meet the 2.5 percent materiality requirement independently may be grouped together with other resources within "New Resources – Grouped" to meet the 2.5 percent materiality requirement. The grouping and timing of materiality for new resource additions is discussed in Section 3.2.14 of this Report.

3.2.14 Materiality for New Resource Additions

The 2008 ASCM states:

> Major resource additions or reductions that meet the criteria identified in paragraph (c)(3) of this section will be allowed to change a Utility's ASC within an Exchange Period provided that the major resource addition or reduction results in a 2.5 percent or greater change in a Utility's Base Period ASC. Bonneville will allow a Utility to submit stacks of individual resources that, when combined, meet the 2.5 percent or greater materiality threshold, provided, however, that each

resource in the stack must result in a change to the Utility's Base Period ASC of 0.5 percent or more.

18 C.F.R. § 301.4(c)(4)

Under the 2008 ASCM, a utility may group or stack resources that individually affect a utility's ASC by 0.5 percent or more to meet the 2.5 percent materiality threshold. A stacked group of resources will not be added to the utility's ASC until the last resource in that stack comes on line. The grouping of resources together, therefore, has a significant impact on the timing of when a utility can expect to see its ASC changed for a new resource addition.

BPA Staff made materiality determinations for all new resources submitted by each utility in its Draft ASC Report. To make these determinations, BPA provided the following instructions to the exchanging utilities at the outset of this ASC Review Process:

- The exchanging utility must include the costs and operating characteristics for each new resource addition.

- The utility must submit the resource additions (individual and/or grouped) that meet the materiality test(s) given the exchanging utility's base period costs.

- BPA Staff will review each new resource addition submitted by the utility to determine the adequacy of costs and operating characteristics.

- BPA Staff will calculate the materiality of an exchanging utility's resources using the utility's adjusted Base Period ASC (per the Draft ASC) and forecast natural gas prices used by BPA in the BP-14 Direct Case. BPA Staff will remove all resources and/or groups of resource additions that do not meet the materiality test(s).

- BPA Staff will not unilaterally regroup resources.

- The Initial Proposal's (BP-14) natural gas price forecast will be the basis for the natural gas fuel costs used for new resource additions in both the Draft and Final ASC Reports.

- The exchanging utility will have the option to recommend a "regrouping" of resource additions that meet the materiality test(s).

- Exchanging utilities must submit the regrouped resource additions in their comments on the Draft ASC Report.

- Only resources that were reviewed by BPA and participants can be used in the regrouping process.

- BPA Staff will make a determination of the new resource additions for the Final ASC Report.

- For the Final ASC Report, BPA will calculate the materiality of the utility's resources under the utility's final Base Period ASC.

The final grouping of new resources will be determined after considering the filing utilities' and other parties' comments on the Draft ASC Report based on the foregoing instructions.

The materiality determinations provided herein are based on the utility's Base Period ASC (per the Draft Report) as adjusted through the ASC Review Process and reflect the natural gas price forecast from the BP-14 Rate Case Initial Proposal.

3.2.15 New Large Single Loads

This tab calculates the cost of resources in an amount sufficient to serve an NLSL, which BPA must exclude from the utility's ASC pursuant to Northwest Power Act Section 5(c)(7). An NLSL is any load associated with a new facility, an existing facility, or an expansion of an existing facility which was not contracted for or committed to (CF/CT) prior to September 1, 1979, and which will result in an increase in power requirements of ten average megawatts (aMW) or more in any consecutive 12-month period. 16 U.S.C. § 839a(13)(A)–(B). By law, BPA must exclude from a utility's ASC the load associated with an NLSL and an amount of resource costs sufficient to serve such NLSL. *See* 16 U.S.C. § 839c(c)(7)(A). To determine the amount of resource costs to exclude from a utility's ASC, BPA follows the methodology described in Endnote d of the 2008 ASCM. *See* 18 C.F.R. § 301, End. d.

3.2.16 Tiered Rates

All exchanging COUs have the right to purchase power at BPA's Tier 1 rate by executing Contract High Water Mark (CHWM) Contracts with BPA. By signing the CHWM Contract, the utility agrees to limit the resources it will exchange in the REP. Under the CHWM Contract, the COU agrees to not include in its ASC the cost of resources necessary to serve the COU's Above-Rate Period High Water Mark (RHWM) load. The CHWM contracts require the cost of serving Above-RHWM loads to be calculated using a methodology similar to Endnote d of the 2008 ASCM. See Section 3.3 of this ASC Report for details.

Data input in this tab is used to calculate the cost of Tier 1 Power Purchases from BPA, and comes from BPA's Power Rates Group (PSR). For background information and details, see http://www.bpa.gov/news/pubs/PastRecordsofDecision/2009/TRM-12S-A-02.pdf .

3.3 Rate Period High Water Mark ASC Calculation Under the Tiered Rate Methodology

CHWM Contracts require that the cost of resources used to meet Above-RHWM loads be calculated using a methodology similar to Endnote d of the 2008 ASCM. BPA uses the following method to determine the ASC of a COU that is participating in the REP.

- RHWM ASC = $\frac{\text{Contract System Cost – NewRes\$}}{\text{Contract System Load – NewResMWh}}$

- NewRes$ is the forecast cost of resources used to serve a customer's Above-RHWM Load. The costs included in NewRes$ will be determined using a methodology similar to Appendix 1, Endnote d, of BPA's 2008 ASCM and as described below.

- NewResMWh is the forecast generation from resources used to serve a customer's Above-RHWM Load. For this Draft ASC Report, the NewResMWh has been set equal to the customer's Above-RHWM Load.

- For calculating both NewRes$ and NewResMWh, Existing Resources for CHWMs specified in Attachment C, Column D, of the TRM (*see* TRM-12S-A-03, September 2009, Attachment C) and purchases of power at Tier 1 rates from BPA are excluded.

A number of considerations are used in calculating the cost of serving Above-RHWM Loads using Endnote d of the 2008 ASCM:

- Types of resources to serve Above-RHWM Loads may be different from those resources used in the NLSL resource cost calculation and will be recognized in calculating RHWM ASC:

    - Power purchases less than five years' duration.

- Total output of new resources may exceed Above-RHWM Load:

    - RHWM ASC does not specify removal of costs associated with this excess.

RHWM ASC calculation methodology:

- Set NewResMWh equal to Above-RHWM Load.
- NewRes$ = NewResMWh times Fully Allocated Cost (calculated using Endnote d).
- If output of material new resources fails to meet Above-RHWM Load, meet deficit with short-term (ST) market purchases at utility-specific market price.
- If output of new resources exceeds Above-RHWM Load, reduce ST market purchases by excess to the extent possible in Contract System Cost calculation.
- Sell any remaining surplus at utility-specific Sales for Resale price in the Contract System Cost calculation.

3.4 ASC Forecast

Once the Base Period ASC is calculated, BPA uses the ASC Forecast Model to escalate forward the Base Period ASC to the midpoint of the Exchange Period. The ASC Forecast Model uses Global Insight's forecast of cost increases for capital costs and fuel (except natural gas), O&M, and G&A expenses; BPA's forecast of market prices for purchases to meet load growth and to estimate short-term and non-firm power purchase costs and sales revenues; BPA's forecast of natural gas prices; and BPA's estimates of the rates it will charge for its PF and other products. For both the Draft and Final ASC Reports, BPA updates the escalators in the ASC Forecast Model to be consistent with the escalators used in the BP-14 rate proceeding. For additional background on the determination of Exchange Period ASCs, see the 2008 ASCM.
18 C.F.R. § 301.4.

3.4.1 Forecast Contract System Cost

Forecast Contract System Cost ("FCSC") includes a utility's forecast costs for production and transmission resources, including power purchases and conservation measures, which are includable in and subject to the provisions of the 2008 ASCM. BPA escalates Base Period costs to the midpoint of the Exchange Period to calculate Exchange Period ASCs. *See* 18 C.F.R. § 301.4(a). BPA projects the costs of power products purchased from BPA using BPA's forecast of prices for its products.

3.4.2 Forecast of Sales for Resale and Power Purchases

BPA does not normalize short-term purchases and sales for resale. The short-term purchases and sales for resale for the Base Period are used as the starting values for the forecast. Utilities are then allowed to include new plant additions and use utility-specific forecasts for the (1) price of long-term purchased power contracts, and (2) long-term sales for resale price contracts to value purchased power expenses and sales for resale revenue. *See* 18 C.F.R. § 301.4(b).

3.4.3 Forecast Contract System Load and Exchange Load

As a part of its ASC Filing, each utility is required to provide a four-fiscal-year forecast of its total retail load, as measured at the meter, and its qualifying residential and small-farm retail load, as measured at the retail meter. For the COUs only, total retail forecast loads, as determined by BPA under the TRM, will be provided through the end of the Exchange Period. Also required is a current distribution loss study as described in the 2008 ASCM, Appendix 1, Endnote e. The total retail and the residential and small-farm load forecasts are adjusted for distribution losses and NLSLs when appropriate. The resulting load forecasts are the Contract System Load forecast and Exchange Load forecast, respectively.

3.4.4 Load Growth Not Met by New Resource Additions

All load growth not met by new resource additions is met by purchased power at the forecast utility-specific short-term purchased power price. To calculate the cost of serving load growth

not served by new resource additions, BPA uses the method outlined in the 2008 ASCM. *See* 18 C.F.R. § 301.4(e).

4 REVIEW OF THE ASC FILING

Pursuant to the 2008 ASCM, the Rules of Procedure for ASC Review Processes, and Section 5(c) of the Northwest Power Act, BPA is responsible for reviewing all costs, revenues, and loads used to establish ASCs for the REP. BPA Staff began the FY 2014–2015 ASC Review Process of Avista's ASC Filing in June 2012. During the interim period, various issues related to Avista's ASC Filing were identified by BPA Staff in the BPA Issues and Clarification List (BPA Issues List); no other party raised issues. Avista responded to each issue raised in the BPA Issues and Clarification List. The preliminary findings of Staff's review of Avista's ASC Filing, BPA's Issues List, and Avista's responses thereto are memorialized in this Draft ASC Report. Following a comment period and the opportunity for Oral Argument before BPA's Administrator or designee, the Final ASC Report for the FY 2014–2015 ASC Review Process are scheduled to be issued in July 2013.

Staff's ASC determination is limited to specific findings on issues identified for comment, with the exception of ministerial and mathematical errors. There may be additional issues that BPA Staff has not identified for comment in this Draft Report. Acceptance of a utility's treatment of an item without comment does not signify a decision of the proper interpretation to be applied either in subsequent filings or universally under the 2008 ASCM. Similarly, further experience under the 2008 ASCM may result in BPA adopting a modified or different interpretation of the 2008 ASCM in future ASC reviews.

Prior to the start of the FY 2014–2015 ASC Review Processes, BPA held workshops on February 2, 2012 and August 11, 2012 to discuss and evaluate new, BPA-proposed procedures, policies, and topics that may affect future ASC Reviews. Topics for discussion included NLSL review and determination; NLSL Formula Rate; definitions of individual new resources for conservation and renewables; FERC accounting questions regarding wind reporting, generation statistics, distribution loss calculations, purchased power and sales for resale; and the treatment of items included under Other Expenses (FERC Account 557) when evaluating the Cash Working Capital calculation.

Following considerable review and discussion of these topics, the Parties and BPA Staff either resolved each issue or determined the issue was not significant to warrant a change in policy or procedure. Therefore, with exception of the NLSL Formula Rate (further described in Section 2.7) and the treatment of items included under other expenses (FERC Account 557) when evaluating the Cash Working Capital calculation (Section 5.2.1), BPA has no additional comments regarding the above-mentioned subject matters and will not separately address them in this ASC Report. BPA and the Parties retain the right to bring any of the topics forward during a later review process.

Table 4-1 below summarizes any direct adjustments BPA Staff is proposing be made to Avista's Appendix 1 in this Draft ASC Report as a result of Staff's review and evaluation. Supporting arguments may be found in the Resolved Issues and/or Unresolved Issues sections listed in the table.

Although a utility's state, county, or municipal regulatory bodies, or the Commission, may allow a particular functionalization to a specific account, BPA is not required to follow that treatment when calculating ASCs under the 2008 ASCM. Rather, BPA is tasked with making an independent determination of the appropriateness of inclusion or exclusion of particular costs, the reasonableness of the costs included in Contract System Costs, the appropriateness of Contract System Loads, and the functionalization method used in the calculation of any cost in conformance with the 2008 ASCM. *See* Rules of Procedure, § 3.2.2.

Table 4-1: Summary of ASC Issues

Appendix 1 Schedule	**Adjustment**
Schedule 1: Plant Investment/Rate Base	Direct adjustment: see Sections 4.1.1.1 and 4.1.1.2
Schedule 1A: Cash Working Capital	Direct adjustment: see Sections 4.1.2.1 and Section 5.2, Generic Issues
Schedule 2: Capital Structure and Rate of Return	No direct adjustments
Schedule 3: Expenses	No direct adjustments
Schedule 3A: Taxes	No direct adjustments
Schedule 3B: Other Included Items	Direct adjustment: see Section 4.1.1.2
Schedule 4: Average System Cost	No direct adjustments
Appendix 1 Supporting Worksheets	**Adjustment**
Forecast Loads	No direct adjustments
New Resource Additions	No direct adjustments
NLSL Calculation	No direct adjustments
Wind Resources	No direct adjustments
Tiered Rates	Updated. See Tiered Rates Tab of Appendix 1
Salary and Wages	No direct adjustments
Ratios	No direct adjustments

ASC Forecast Model	**Adjustment**
Tier 1 Power Purchases from BPA	See Section 5.3.1, Generic Issues
Calculation of ASC Delta for New Resource Additions	See Section 5.3.2 , Generic Issues
PF Rates	Updated. See the PF_Rates Tab

Purchased Power and Sales for Resale	Erratum. See Section 4.3.1
Natural Gas and Market Prices	Erratum. See Section 4.3.2
Cash Working Capital	Erratum. See Section 4.3.3

4.1 Resolved Issues

BPA Staff raised the following issues and provided its proposed decisions to Avista in BPA Staff's September 5, 2012, Issue List. Avista's responses to the Issues are recited below. No other Party raised issues or commented on Avista's Issue List. BPA Staff considers the issues identified in this section resolved.

4.1.1 Schedule 1 – Plant Investment/Rate Base

4.1.2.1 Account 111 – Amortization of Intangible Plant, Account 303

Issue:

Whether there is an omission which explains a $2,330,000 reduction in Account 111, Amortization of Intangible Plant, Account 303, for CY 2011 as compared to CY 2009.

Parties' Positions:

In Avista's FY 2014-2015 As-Filed ASC Filing, Colstrip Allowance for Funds Used During Construction (AFUDC) Amortization in the amount of $2,517,300 was inadvertently omitted.

BPA Staff's Position:

Colstrip AFUDC Amortization in the amount of $2,517,300 should be added to Account 111, Amortization of Intangible Plant, Account 303, and functionalized to Distribution/Other. Avista concurs with this decision.

Evaluation of Positions:

BPA Staff noted an unexplained $2,330,000 reduction in Account 111 for CY 2011, as compared to CY2009, while also noting a $300,000 increase in the corresponding asset account, Account 303, Intangible Plant.

In response to data request BPA-AV-FY14-04 concerning this reduction, Avista stated that during 2009, the Company's accounting department changed the way the Colstrip AFUDC Amortization was accounted for in the fixed asset system and moved it to the general ledger system. The Colstrip AFUDC Amortization entry was inadvertently omitted from Account 111

in Avista's FY 2014-2015 ASC Filing. With the addition of $2,517,300, the account would reconcile with the corresponding FERC Form 1 account.

See BPA Issues List to Avista, Utility-Specific Issues, No. 1.

Draft Decision:

Account 111, Amortization of Intangible Plant, Account 303, in Avista's Appendix 1 will be updated to reflect the addition of $2,517,300. BPA Staff considers this issue resolved.

Table 4.1.1.1-1: Account 111 – Amortization of Intangible Plant, Account 303

	Total	Production	Transmission	Dist/Other
As-Filed	1,504,306	186,135	605,043	713,128
Adjusted	4,021,606	186,135	605,043	3,230,428

4.1.2.1 Account 182.3 – Regulatory Assets; Account 254 – Regulatory Liabilities Account 407.3 – Deferred Debits; and Account 407.4 – Deferred Credits

Issue:

Whether Avista properly functionalized regulatory assets and the associated amortization expense or credit.

Parties' Positions:

In Avista's FY 2014-2015 As-Filed Appendix 1, the regulatory assets and the associated amortization expenses or credits listed in Table 4.1.1.2-1, below, were functionalized to Production or Transmission.

BPA Staff's Position:

The regulatory assets and the associated amortization expenses or credits listed in Table 1.3.1-1 below should be functionalized to Distribution/Other.

Table 4.1.1.2-1: Account 182.3 – Regulatory Assets; Account 254 – Regulatory Liabilities; Account 407.3 – Deferred Debits; and Account 407.4 – Deferred Credits

					Functionalization	
				Amount		BPA-
Entry	Tab	Line	Acct	($)	As-Filed	Proposed
CS2 & Colstrip	Reg Assets	24	182.3	143,226	Production	Distribution
	Reg Liab	23	254	(516,251)	Production	Distribution

	Tab 3B.1 Reg Cred	129	407.4	373,025	Production	Distribution
LiDAR	Reg Assets	25	182.3	337,879	Production	Distribution
	Tab 3B.1-Reg Credits	130	407.4	(337,879)	Production	Distribution
CNC Transmission	Reg Assets	23	182.3	735,906	Transmission	Distribution
	Tab 3B.1-Reg Debits	118	407.3	22,005	Transmission	Distribution

Evaluation of Positions:

The entries listed in the table above were functionalized to Production or Transmission in Avista's As-Filed FY 2014-2015 ASC Filing.

The 2008 ASCM ROD states:

> Under the proposed ASCM, exchanging utilities are required to conduct a direct analysis on regulatory assets so the individual items included in regulatory assets or liabilities can be properly functionalized and included in the calculation of ASC. The Utility must describe the functional nature of the regulatory asset or liability, whether or not the asset or liability is included in rate base by its state commission(s), and the return or carrying costs allowed by the state commission(s). Under no conditions would regulatory assets be included in ASC at a level greater than regulatory commissions allow them to be recovered in retail rates.

2008 ASCM ROD at 149.

Avista included regulatory assets and the related amortization expenses or credits associated with the deferral of operations and maintenance identified in the above table in its FY 2014–2015 ASC Filing. However, according to a Washington Utility and Transportation Commission (WUTC) settlement stipulation dated September 30, 2011 and Rate Order No. 6 dated December 16, 2011, Docket UE-110786, the WUTC authorized Avista to defer including these regulatory assets and the amortization expenses or credits in retail rates until January 1, 2012. These entries reflect highly variable maintenance costs associated with Coyote Springs 2, and Colstrip 3 and 4, as well as expenses associated with the Transmission Line Ratings Confirmation Plan. Because these regulatory assets were not included in the retail rates during the Base Period, they cannot be functionalized to Production or Transmission, as the case may be, and included in ASC for the FY 2014-2015 ASC Filing Period.

Avista concurred with BPA Staff's determination to change the functionalization of the regulatory assets and the associated amortization expenses or credits to Distribution/Other.

See BPA Issues List to Avista, Utility-Specific Issues, No. 3.

Draft Decision:

The functionalization of the entries listed on the table, above, will be changed to Distribution/Other.

Table 4.1.1.2-2: Account 182.3 – Regulatory Assets

	Total	Production	Transmission	Dist/Other
As-Filed	524,250,326	59,349,660	735,906	464,164,760
Adjusted	524,250,326	58,868,555		465,381,771

Table 4.1.1.2-3: Account 254 – Regulatory Liabilities

	Total	Production	Transmission	Dist/Other
As-Filed	20,939,852	3,957,731		16,982,121
Adjusted	20,939,852	3,441,480		17,498,372

Table 4.1.1.2-4: Account 407.3 – Deferred Debits

	Total	Production	Transmission	Dist/Other
As-Filed	3,366,279	3,344,274	22,005	---
Adjusted	3,366,279	3,344,274	---	22,005

Table 4.1.1.2-5: Account 407.4 – Deferred Credits

	Total	Production	Transmission	Dist/Other
As-Filed	17,238,278	202,728		17,035,550
Adjusted	17,238,278	237,874		17,000,404

4.1.2 Schedule 1A – Cash Working Capital

4.1.2.1 Account 557 – Other Power Supply Expense

Issue:

Whether Avista properly excluded $222,040,599 of Fuel and Purchased Power-related costs from the calculation of Cash Working Capital. For context on this issue, please see the generic issue addressing Schedule 1A – Cash Working Capital and Account 557 in Section 5.2.

Parties' Positions:

Avista included $222,040,599 of fuel and purchased power-related expenses in Account 557 and did not remove them from the calculation of Cash Working Capital. Avista acknowledged that a filing utility must separately remove any fuel and purchased power expense prior to the calculation of Cash Working Capital.

BPA Staff's Position:

A filing utility should remove any fuel and purchased power-related expense from Account 557 prior to the calculation of Cash Working Capital.

Evaluation of Positions:

During review of Avista's As-Filed FY 2014-2015 Appendix 1, BPA Staff noted that $222,040,599 of Fuel and Purchased Power related costs included in Account 557 were not removed for the Cash Working Capital calculation.

Endnote f of the 2008 ASCM states:

> f/ Cash working capital (CWC) is a ratemaking convention that is not included in the Form 1, but a part of all electric utility rate filings as a component of rate base. For determining the allowable amount of cash working capital in rate base for a Utility, BPA will allow no more than 1/8 of the functionalized costs of total production expenses, transmission expenses and Administrative and General expenses less purchased power, fuel costs, and Public Purpose Charge.

18 C.F.R. § 301, End. f.

Pursuant to Endnote f, Fuel and Purchased Power Costs are not appropriate costs to include in the calculation of Cash Working Capital which is ultimately included in a utility's ASC.

BPA Staff informed Avista that fuel and purchased power costs totaling $222,040,599 had been added to the Operations and Maintenance costs instead of subtracting them. Avista concurred with BPA's determination to subtract these costs.

See BPA Issues List to Avista, Utility-Specific Issues, No. 2.

Draft Decision:

$222,040,599 in fuel costs will be removed from the Operations and Maintenance costs used in the calculation of Cash Working Capital.

Table 4.1.2.1-1: Schedule 1A – Cash Working Capital
Less Purchased Power, Public Purpose Charge, REP Reversal, Fuel Costs (Line 20)

	Total	Production	Transmission	Dist/Other
As-Filed	73,746,378	73,746,378		
Adjusted	517,827,576	517,827,576		

4.2 Identification and Analysis of Unresolved Issues

BPA has no unresolved issues identified at this time. No other party raised issues with, or commented on, Avista's June 4, 2012, ASC Filing.

4.3 ASC Forecast Model Errata

On April 18, 2012, BPA released its latest ASC Forecast Model to be used for the FY 2014-2015 ASC Review Processes. Following that release date and after the June 4 utility submissions, BPA Staff discovered three formula discrepancies in the ASC Forecast Model as described below.

4.3.1 Purchased Power and Sales for Resale

BPA Staff discovered a formula error in the worksheet that calculates purchased power expense and off-system sales revenue. Specifically, the forecast model was not recognizing the cost of the Base Period Tier 1 purchases from BPA. The error affected the forecast ASCs of Snohomish County PUD and Clark County PUD only. BPA staff corrected this error and issued an updated ASC Forecast Model on July 18, 2012. *See* Cell E163 of the OSS & PurPWr Forecast (2) Tab of the ASC Forecast Model.

4.3.2 Market Price Forecast

BPA Staff discovered a formula error in the worksheet that calculates the individual utility market purchase price and market sales price. The worksheet was not recognizing the correct Base Period (CY 2011) actual market price in the INPUTS Tab. The error affected the Exchange Period purchased power expense and sales for resale revenues of all participating utilities. BPA staff corrected the error prior to providing Exchange Period ASCs for the Initial Rate Proposal. The ASC Forecast Model with the correction was uploaded simultaneously with the Draft ASC Reports and Draft Appendix 1 models. *See* Cell C46 on the INPUTS Tab of the ASC Forecast Model.

4.3.3 Cash Working Capital Calculation

BPA Staff discovered a formula error in how the ASC Forecast Model was forecasting Cash Working Capital. The Model was not removing fuel and purchased power costs from Account 557 prior to forecasting Cash Working Capital. BPA Staff corrected the error prior to providing Exchange Period ASCs for the Initial Rate Proposal. The ASC Forecast Model with the correction was uploaded simultaneously with the Draft ASC Reports and Draft Appendix 1 models. The correction affected the Exchange Period ASCs of Avista and Idaho Power Company. *See* Row 85 on the Base Data Tab of the ASC Forecast Model.

5 GENERIC ISSUES

5.1 Introduction

In addition to the above-noted issues specific to the utility's ASC, BPA raised the following issues that may be generic to all exchanging utilities.

5.2 Schedule 1A – Cash Working Capital

5.2.1 Account 557 – Other Expense

Issue:

Whether expenses associated with purchased power or fuel costs that are recorded in Account 557, Other Expenses, should be removed for the purposes of calculating Cash Working Capital (Schedule 1A).

Parties' Positions:

The IOUs state that any fuel-related expenses that are reported in Account 557 should be excluded in the Cash Working Capital calculation.

BPA Staff's Position:

BPA Staff contends that any expenses associated with purchased power or fuel costs that are recorded in Account 557, Other Expenses, should be removed for the purposes of calculating Cash Working Capital (Schedule 1A).

Evaluation of Positions:

Endnote f of the 2008 Average System Cost Methodology, Final Record of Decision, explicitly states that purchased power and fuel costs should be excluded from the Cash Working Capital calculation.

> f/ Cash working capital (CWC) is a ratemaking convention that is not included in the Form 1, but a part of all electric utility rate filings as a component of rate base. For determining the allowable amount of cash working capital in rate base for a Utility, BPA will allow no more than 1/8 of the functionalized costs of total production expenses, transmission expenses and Administrative and General expenses less purchased power, fuel costs, and Public Purpose Charge.

18 C.F.R. § 301, End. f.

Both the IOUs and BPA agree that any expenses associated with purchased power or fuel costs that are recorded in Account 557, Other Expenses, should be removed from the Cash Working Capital (Schedule 1A) calculation.

See BPA Issues List to Avista, Generic Issues, No. 1.

Draft Decision:

Any expenses associated with purchased power or fuel costs that are recorded in Account 557, Other Expenses, will be removed for the purposes of calculating Cash Working Capital (Schedule 1A).

5.3 ASC Forecast Model

5.3.1 Tier 1 Power Purchases from BPA

Issue:

With respect to the COUs, what level of Tier 1 purchases is appropriate to include in the Exchange Period ASC calculation?

Parties' Positions:

The Parties have not had the opportunity to comment on this issue.

BPA Staff's Position:

The ASC Forecast Model should set Tier 1 purchase amounts equal to the lesser of RHWM (based on Slice amounts assuming critical water) or net requirements, plus the COU's Slice share of Federal Columbia River Power System (FCRPS) surplus under average water.

Evaluation of Positions:

Under the 2008 ASCM, the calculation of ASC for both IOUs and COUs begins with actual historical data from a Base Period, which is then escalated to the midpoint of the Exchange Period (*i.e.*, October 1, 2014) in accordance with the formulas and rules of the ASC Forecast Model. For the FY 2014–2015 ASC Review Process, the Base Period is calendar year 2011. For both COUs and IOUs, long-term power purchases in the Base Period reflect the utilities' actual purchases. For COUs, the Base Period purchases reflect all power purchases the utility received from BPA (including surplus under Slice).

Differences arise between the COUs and IOUs, however, when BPA escalates the long-term power purchases from the Base Period to the Exchange Period in the ASC Forecast Model.

For IOUs, the 2008 ASCM requires that the output from the utility's own generation and the amount of power from long-term and intermediate power purchases remain constant at the Base

Period level; thus, if a utility had 100 aMW of power purchases in CY 2011, BPA would assume that for the rate period, the utility would again have 100 aMW of long-term power purchases annually. If the utility's existing and long-term resources are insufficient to meet the utility's forecast annual rate period load, the ASC Forecast Model makes up the difference by increasing the utility's short-term market purchases. 18 C.F.R. § 301.4(e).

For COUs, the 2008 ASCM requires BPA to calculate ASC by using "the RHWM System Resources as determined in the [TRM] process." 18 C.F.R. § 301.4(g)(1). To implement this language, BPA Staff designed the ASC Forecast Model to update the COUs' PF purchases for the Exchange Period (*i.e.*, FY 2014–2015) with the RHWM purchases BPA establishes as part of the RHWM process. These RHWM purchases are based on a critical water assumption, and do not include surplus power that Slice customers may otherwise be entitled to during the Exchange Period. The effect of this modeling input is that COUs' ASCs are based on two different long-term power purchase assumptions: (1) a Base Period long-term power purchase amount determined using *actual* purchases (which reflects actual water conditions), and (2) Exchange Period long-term power purchases determined using *critical* water conditions. If the projected purchases under critical water in (2) are less than the long-term purchases under actual water conditions in (1), the ASC Forecast Model projects that the utility is resource-deficient during the Exchange Period and automatically increases a utility's market purchases (at market prices) to make up the difference. This is the case even though the utility's *actual* power deliveries from BPA are likely to be much greater than the critical water assumption used in calculating the utility's RHWM.

BPA Staff contends using actual-water-based PF power purchases in the Base Period and then critical-water-based PF power purchases in the Exchange Period is logically inconsistent and not the intent of the 2008 ASCM. Had this modeling anomaly been identified earlier, BPA Staff would have revised the ASC Forecast Model to ensure that both the Base Period and Exchange Period calculations of PF power purchases were using consistent methods. Having now identified the anomaly, BPA Staff proposes to make the modeling change to the ASC Forecast Model for purposes of calculating the COUs' ASCs. In determining how to remedy the modeling anomaly, BPA Staff examined three alternatives:

> Alternative 1: Set Tier 1 purchase amounts equal to Base Period PF/Tier 1 purchases. This is the same method used for all other long-term purchases of COUs and long-term purchases of IOUs. The water condition of the base year is assumed to occur in the forecast years; the same assumption is used for IOUs.
>
> Alternative 2: Set Tier 1 purchase amounts equal to the lesser of RHWM or net requirements (the firm Slice amounts), plus the COU's Slice share of FCRPS surplus under average water (thereby using the same assumption as in rates: part of BPA's surplus generation is taken by Slice customers). This alternative sets the COU purchase amounts from BPA according to the "RHWM System Resources" established by BPA in its Power Rate Proceeding.
>
> Alternative 3: Set Tier 1 purchase amounts equal to the lesser of the amounts determined in Alternatives 1 and 2, above.

For purposes of this Draft ASC Report, BPA Staff recommends adopting Alternative 2. Alternative 2 would create an "apples-to-apples" comparison between the long-term purchases considered in the Base Period (which includes surplus under *actual* water conditions) and the long-term purchases updated in the Exchange Period (which would include surplus under average water conditions). BPA Staff contends this method also adheres to the ASCM's requirement that BPA use the "the RHWM System Resources as determined in the [TRM] process," which would continue to form the primary basis for the long-term projections used in the ASC Forecast Model. Finally, Staff contends this method meets the intent of the 2008 ASCM with respect to determining the ASCs of COUs by basing a COU's ASC on the best projection of the utility's PF purchases from BPA during the Exchange Period.

Draft Decision:

For the Draft ASC Reports, BPA chose to use Alternative 2 to determine what level of Tier 1 purchases is appropriate to include in the Exchange Period ASC calculation: Set Tier 1 purchase amounts equal to the lesser of the RHWM or net requirements (the firm Slice amounts), plus the COU's Slice share of FCRPS surplus under average water.

5.3.2 Calculation of ASC Delta for New Resource Additions

Issue:

What is the appropriate method to calculate the ASC delta for new resource additions?

Parties' Positions:

The Parties have not had the opportunity to comment on this issue.

BPA Staff's Position:

BPA will calculate an ASC delta for each combination of new resource additions contained in the utilities' ASC Filings.

Evaluation of Positions:

During the ASC review, BPA Staff became aware of an issue regarding the calculation of the ASC delta for new resource additions. For utilities with multiple new resource additions that meet the materiality threshold of 2.5 percent and an existing NLSL, the ASC delta can differ for a new resource addition depending on which new resources have previously come on line. The differing ASC deltas result from the effect of the new resource additions on the $/MWh cost to serve NLSLs. PGE is the only utility affected in the FY 2014-2015 Review Process, but other utilities may be affected in the future. To correct for this effect, BPA has calculated an ASC delta for each possible combination of new resources. These ASC deltas are the amount to be added to PGE's Exchange Period ASC assuming no new resource additions. The ASC deltas are shown on Table 2.7-1 in PGE's Draft ASC Report.

Draft Decision:

For the Final ASC Reports, BPA will calculate an ASC delta for each combination of new resource additions contained in the utilities' ASC filings.

6 FY 2014–2015 ASC

Avista's As-Filed, Base Period (CY 2011) ASC was $59.42/MWh. As a result of adjustments made during the review process, Avista's Base Period ASC decreased to $58.62/MWh.

Avista's As-Filed, Exchange Period ASC for FY 2014–2015 was $56.49/MWh. As a result of adjustments made during the review process, Avista's Exchange Period ASC for FY 2014–2015 increased to $57.13/MWh.

This proposed Exchange Period ASC does not reflect any adjustments for new resources that may come on line prior to or during the Exchange Period or any changes in NLSL status. Please refer to Section 2.7 for potential adjustments to Exchange Period ASCs.

7 REVIEW SUMMARY AND REQUEST FOR COMMENTS

This Draft ASC Report is BPA Staff's preliminary determination of Avista's FY 2014–2015 ASC Filing, and its Base Period and Exchange Period ASCs based on the information and data provided by Avista to date, and based on the professional review, evaluation, and judgment of BPA Staff. BPA is soliciting comments from utilities participating in the FY 2014–2015 ASC Review Process on this Draft ASC Report and the Draft ASC Reports of all other exchanging utilities.

Comments on any Draft ASC Report should identify with specificity the decisions and/or statements from the Draft ASC Report that the commenter intends to support or oppose. *See Rules of Procedure for BPA's ASC Review Processes,* § 3.6.1.2. Failure to raise an objection to a decision or issue addressed in the Draft ASC Report will result in the waiver of that issue on appeal. *Id.*, at § 3.6.1.3. After review and consideration of all comments, BPA will make final ASC determinations for each exchanging utility for FY 2014–2015 in the Final ASC Reports. The Final ASC Reports are anticipated to be published in July 2013.

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