

**FY 2016–2017**

**FINAL**

**AVERAGE SYSTEM COST REPORT**

Avista Corporation

July 2015





**FY 2016–2017**

**FINAL**

**AVERAGE SYSTEM COST REPORT**

**FOR**

**Avista Corporation**  
Docket Number: ASC-16-AV-01

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

July 2015

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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:  
Public Utility Commission of Oregon (“OPUC”)

Average System Cost Base Period: Calendar Year (“CY”) 2013

Effective Exchange Period: Fiscal Years 2016–2017, October 1, 2015 – September 30, 2017

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 Bonneville Power Administration (“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 5(b)(1) and 5(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 farm consumers. 16 U.S.C. § 839c(c)(3). A utility participating in the REP will hereinafter be referred to as a “Utility” or “Exchanging Utility.”

The Northwest Power Act grants BPA’s Administrator the authority to determine Utilities’ average system cost(s) (“ASC”) based on a methodology established in a public consultation proceeding. 16 U.S.C. § 839c(c)(7). 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.*

The Act limits eligibility for the REP to utilities and load located within the geographical area defined as the “Pacific Northwest” or “region.” *See* 16 U.S.C. § 839a(14)(A)-(B). Specifically, “region” is defined as follows:

the area consisting of the States of Oregon, Washington, and Idaho, the portion of the State of Montana west of the Continental Divide, and such portions of the States of Nevada, Utah, and Wyoming as are within the Columbia River drainage basin; and

any contiguous areas, not in excess of seventy-five air miles from the area referred to in subparagraph (A), which are a part of the service area of a rural electric cooperative customer served by the Administrator on December 5, 1980, which has a distribution system from which it serves both within and without such region.

*Id.*

BPA conducted an ASC review to determine Avista’s ASC for fiscal years (“FY”) 2016–2017 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 2016–2017 Final Average System Cost Report (“Final ASC Report”) describes BPA’s ASC review process and evaluation used to implement the 2008 ASCM and the results of BPA’s ASC Filing review.

For more information regarding the 2008 ASCM, please refer to the Federal Energy Regulatory Commission’s final ruling and the *2008 ASCM*, available at [Federal Energy Regulatory Commission's Final Ruling and the 2008 ASCM](#), and the *Average System Cost Methodology Final Record of Decision (“2008 ASCM ROD”)*, June 30, 2008, available at [BPA’s Residential Exchange Program](#) website.

General information regarding the ASC Review Process can be found at [BPA’s Residential Exchange Program](#) website.

NOTE: If a filing Utility or an intervenor wished to preserve any issue related to an ASC Filing for subsequent administrative or judicial appeal, it must have raised such issue in its comments on the Draft ASC Report covering that ASC Filing. If a party failed to do so, the issue is waived for subsequent appeal. *See* Rules of Procedure for BPA’s ASC Review Processes (“Rules of Procedure”), § 3.6.1.3.

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## 2 AVERAGE SYSTEM COST SUMMARY

### 2.1 Avista Corporation Background<sup>1</sup>

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, 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 366,000 electric customers across 2,700 miles of transmission lines and 19,000 miles of distribution lines. Generation statistics for 2013 are shown in the Table below.

<b>Avista 2013 Electric Generation and Energy</b>				
<b>Type</b>	<b>Capacity (MW)</b>	<b>Percent</b>	<b>Energy (MWh)</b>	<b>Percent</b>
<b>Hydro</b>	914	53	4,534,293	33
<b>Coal</b>	233	13	1,432,719	10
<b>Natural Gas</b>	542	31	722,221	5
<b>Biomass</b>	51	3	291,125	2
<b>Other</b>	7	0	1,375	0
<b>Resources</b>			6,724,582	49
<b>Total</b>	<b>1,747</b>	<b>100</b>	<b>13,706,315</b>	<b>100</b>

Avista Corporation, 2013 FERC Form No. 1, April 11, 2014.

### 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 Federal Energy Regulatory Commission (“FERC”) Form 1 data for IOUs, or the most recent audited financial statements (Annual Reports) for COUs. The Base Period data are derived from the Base Period FERC Form 1s (for IOUs) or the Annual Reports (for COUs), and underlying accounting system data for all Utilities. For purposes of the FY 2016–2017 filing period, the Base Period is CY 2013. The submitted

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<sup>1</sup> Information stated in this section was sourced from Avista’s website and FERC Form 1.

information includes the “Appendix 1,” an Excel-based workbook populated with financial and load data used to calculate the Base Period ASC.

The Table below summarizes the CY 2013 Base Period ASC based on (1) the information contained in Avista’s June 2, 2014, ASC Filing (“As-Filed”), and (2) as adjusted by BPA in this Final ASC Report. This Table does not reflect the Exchange Period (defined below) ASC, which is noted in subsequent tables.

**Table 2.2-1: CY 2013 Base Period ASC**  
(Results of Appendix 1 calculations)

	<b>June 2, 2014 As-Filed</b>	<b>July 23, 2015 Final ASC Report</b>
Production Cost	\$420,814,424	\$415,348,830
Transmission Cost	\$72,296,289	\$76,605,339
(Less) NLSL Costs	\$0	\$0
<b>Contract System Cost (“CSC”)</b>	<b>\$493,110,713</b>	<b>\$491,954,169</b>
Total Retail Load (MWh)	8,909,409	8,909,409
(Less) NLSL	0	0
Total Retail Load (Net of NLSL)	8,909,409	8,909,409
Distribution Losses	409,836	409,836
<b>Contract System Load (“CSL”)</b>	<b>9,319,245</b>	<b>9,319,245</b>
<b>CY 2013 Base Period ASC (CSC/CSL)</b>	<b>\$52.91/MWh</b>	<b>\$52.79/MWh</b>

### 2.3 FY 2016–2017 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.

Losses are the distribution energy losses occurring between the transmission portion of the Utility’s system and the meters measuring firm energy load. *Id.* The distribution loss can be measured using one of the three methods 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 a comparable data source. *Id.*

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

## 2.4 FY 2016–2017 Exchange Period ASC

BPA and intervenors had the opportunity to review, evaluate, and comment on a Utility’s Appendix 1 historical costs and forecast loads submitted in the ASC Review Process. Once the Base Period ASC was determined, the cost data were escalated forward using the “ASC Forecast Model,” an Excel-based macro model, to the midpoint of the Exchange Period, which in this instance is October 1, 2016. For purposes of the FY 2016–2017 ASC Review Period, the Exchange Period is October 1, 2015, to September 30, 2017 (“Exchange Period”).

A Utility’s As-Filed Exchange Period ASC may increase or decrease by the time of the Final ASC Report because of adjustments made during the ASC Review Process, such as updates to BPA’s natural gas and market price forecasts, errata corrections, or other changes made by BPA. For all Utilities, BPA updated natural gas and market price forecasts to match natural gas and market price forecasts in the BP-16 Rate Case Final Proposal. See the “Input” tab of the ASC Forecast Model for the Utility’s (1) As-Filed and (2) BPA-Adjusted models for additional details. All other adjustments, if any, made during the review are explained in Section 4 of this Final ASC Report.

For the COUs only, BPA updated Rate Period High Water Marks (“RHWMs”) and the associated Tiered Rates to match what is being used in the BP-16 Final Proposal. See the “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 2, 2014, and as adjusted by BPA for this Final ASC 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 discussed in Section 2.5 of this Final ASC Report, or the Utility is subject to New Large Single Load (“NLSL”) adjustments as discussed in Section 2.6.

**Table 2.4-1: Exchange Period FY 2016–2017 ASC (\$/MWh)  
With No Major Resource Additions or Removals**

<b>Date</b>	<b>June 2, 2014 As-Filed</b>	<b>July 23, 2015 Final ASC Report</b>
FY 2016–2017	54.50	50.87

## 2.5 ASC Major Resource Additions or Removals

Under the 2008 ASCM, a Utility’s ASC may be adjusted to reflect the addition or loss of a major 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 or existing 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 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 a resource that affects a

Utility's Base Period ASC by two and one-half percent (2.5%) or more will be considered a major resource. 18 C.F.R. § 301.4(c)(4). This is the materiality threshold. The 2008 ASCM also 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 one-half percent (0.5%) or more. *Id.* See also § 3.2.14 of this Final ASC Report.

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

Although the 2008 ASCM permits a Utility's ASC to be adjusted to reflect the inclusion of a major new resource that comes on-line during the Exchange Period, as part of the 2012 Residential Exchange Program Settlement Agreement, BPA Contract No. 11PB-12322 ("2012 REP Settlement"), all six regional IOUs 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. The exchanging COUs did not make such a waiver and will continue to include major new resource additions during the Exchange Period under the rules of the 2008 ASCM.

For informational purposes, BPA retained Table 2.5-2 in the Draft ASC Report, which identified all Exchanging Utilities' major resource additions *during* the Exchange Period because the 2012 REP Settlement was still subject to a challenge in the U.S. Court of Appeals for the Ninth Circuit (Court). However, on May 22, 2015, the Court issued a memorandum opinion in *Public Power Council v. U.S Dept. of Energy*, 2015 WL 2448336, which dismissed as moot the Western Public Agency Group's (WPAG) challenge to BPA's WP-07S ROD. This dismissal effectively ended all current challenges related to the REP. The dismissal will not change the manner in which BPA reviews or determines ASCs for the IOUs and COUs. However, it confirms that during the term of the 2012 REP Settlement, IOUs will not include major resource additions that come on line during the Exchange Period. Thus, BPA removed Table 2.5-2 from the IOUs' Final ASC Reports, and will not include it in the IOUs' future Draft and Final ASC Reports through the term of the Settlement Agreement.

Table 2.5-1 summarizes the major resource additions, prior to any NLSL adjustments, that are projected to become commercially operational, and major resources that will cease to be commercially operational, *prior* to the beginning of the Exchange Period (*i.e.*, January 1, 2014 – September 30, 2015).

Avista has no major resources coming on line prior to the FY 2016–2017 Exchange Period. However, Avista recorded **(\$11,692,000)** on the New Resources tab to negate the effects of an out-of period adjustment on their Exchange Period ASC. See Section 4.2.1.

**Table 2.5-1: Major Resources Coming On Line or Being Removed  
Prior to the Exchange Period (\$/MWh)**

<b>As-Filed FY 2016–2017 Exchange Period ASC</b>				
<b>Resource</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
Expected On Line or Removal Date				
Delta*				

<b>Final ASC Report FY 2016–2017 Exchange Period ASC</b>				
<b>Resource</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
Expected On Line or Removal Date				
Delta*				

\*The Delta is the incremental change in the ASC as major resources come on line or are removed.

**2.6 NLSL Adjustment**

An 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 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 and Section 2.7 of this Final ASC Report.

NLSLs are not determined in the ASC Review Process. Instead, NLSLs are identified through a separate process conducted by BPA’s NLSL Staff, which is 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. Avista has no new NLSLs currently under review.

**Table 2.6-1: New Large Single Loads Under Review**

<b>As-Filed FY 2016–2017 NLSL Load Amount (MWh)</b>	
<b>NLSL(s)</b>	<b>Load</b>
N/A	N/A
<b>Final ASC Report FY 2016–2017 NLSL Load Amount (MWh)</b>	
<b>NLSL(s)</b>	<b>Load</b>
N/A	N/A

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

<b>As-Filed FY 2016–2017 Exchange Period ASC (MWh)</b>				
<b>Customer</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
Expected Start Date				

<b>Final ASC Report FY 2016–2017 Exchange Period ASC (MWh)</b>				
<b>Customer</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
Expected Start Date				

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

<b>As-Filed FY 2016–2017 Exchange Period ASC (MWh)</b>				
<b>Customer</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
Expected Start Date				

<b>Final ASC Report FY 2016–2017 Exchange Period ASC (MWh)</b>				
<b>Customer</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
Expected Start Date				

## 2.7 NLSL Formula Rate

During customer workshops conducted in 2012, BPA Staff and Utilities agreed to use a formula rate calculation to remove resource costs from a Utility’s ASC when an NLSL occurs after the Base Period. The formula rate was first implemented for the FY 2014–2015 Exchange Period and is described in the FY 2014–2015 Final ASC Reports, Section 2.7.

Prior to the FY 2014–2015 Exchange Period, BPA calculated the costs of serving a prospective NLSL in the ASC Review Process based on forecasts of the projected NLSL’s megawatt hours (“MWh”) and start date as provided by the filing Utility. BPA 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 start dates might differ from the forecast; and second, the actual MWh amounts of the NLSL might differ substantially from forecast amounts contained in the Final ASC Report.

For purposes of this Final ASC Report, no Utility identified potential NLSLs taking power prior to or during the FY 2016–2017 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 will review and evaluate the NLSL and, as necessary, calculate a new ASC using the inputs and formula method as defined below:

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

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 (\$/MWh), and Contract System Load (MWh). 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 and Cost of Serving NLSL**

<b>Inputs for both <i>Prior to</i> and <i>During</i> the Exchange Period</b>			
	<b>Resource Addition or Removal</b>	<b>Contract System Cost (\$)</b>	<b>Cost of Serving NLSL (\$/MWh)</b>
<i>None</i>	No resource additions or removals.	464,028,012	57.61
<i>Prior to</i>	N/A	N/A	N/A
<i>During</i>	N/A	N/A	N/A

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

<b>FY 2016–2017</b>
<b>Contract System Load (MWh)</b>
9,121,793

### 3 FILING REQUIREMENTS

#### 3.1 ASC Review Process – FY 2016–2017

Utilities' ASCs are established in BPA's ASC Review Processes. The ASC Review Processes for FY 2016–2017 began on June 2, 2014, 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), which are populated with supporting data and documentation provided by the Utility.

Notice of the ASC Review Processes was provided on BPA's REP public website, BPA's Secure REP website and via email. The Utilities posted ASC Filings on BPA's Secure REP website by the June 2, 2014, filing deadline. 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 the opportunity to request data, submit comments, and raise issues with the Utilities' ASCs throughout a three-month period; the filing Utilities, in turn, were afforded the opportunity to respond to requests for data, raise and respond to issues, and answer any questions relative to the ASC Filings. BPA engaged in this discovery throughout the entire ASC Review Processes.

Draft ASC Reports were issued December 10, 2014, for each of the eight Utilities. The schedule afforded Parties with an approximately 4-month period (through April 13, 2015) in which to submit comments to the Draft ASC Report. Additionally, BPA offered to hold both a clarification workshop and oral argument if requested by any Party. BPA did not receive any such requests and as a result, neither event was held. See Sections 4 and 5 to review comments, if any, submitted by the Utilities and intervenors.

This Final ASC Report reflects BPA's findings following its review of Avista's ASC Filing and addresses the issues and questions raised by the Utility, intervenors, and BPA, if any, during the ASC Review Process.

For details of the ASC Review Period and guidelines, please see the Rules of Procedure available at [BPA's Residential Exchange Program](#) website.

Final ASC Reports for each Utility are available at <http://www.bpa.gov/Finance/ResidentialExchangeProgram/Pages/FY-16-17-ASC-Utility-Filings.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
17. Above-RHWM Base Calculation

#### **3.2.1 Schedule 1 – Plant Investment/Rate Base**

Schedule 1 of the Appendix 1 establishes the Utility's Rate Base, which is the value of property on which the Utility is permitted to earn a specific rate of return (calculated in Schedule 2), in accordance with rules set by the state's Public Utility Commission or other regulatory agency. 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 FERC's 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 Commissions' proposed working capital formula. The purpose of working capital is to compensate a Utility for funds used in day-to-day operations.<sup>2</sup>

Cash Working Capital is a ratemaking convention that is not included in FERC's Uniform System of Accounts, but is 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 (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 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.

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<sup>2</sup> James C. Bonbright *et al.*, *Principles of Public Utility Rates* 244 (2d ed. 1988).

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 (\$)

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 distribution costs or the cost of serving a Utility’s NLSLs. CSC is the numerator in the ASC calculation.

#### Contract System Load (MWh)

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. See 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 IOU is required to provide a four-fiscal-year forecast of its total retail load beginning October 1 of the Base Year (*i.e.*, 10/2013 – 09/2017), as measured at the meter. For COUs, the total retail loads for this time period are forecast by BPA with the net requirements being computed consistent with the Tiered Rate Methodology (“TRM”). See the Tiered Rates tab in Appendix 1.

Additionally, each COU is required to provide a four-fiscal-year forecast of its qualifying residential and farm retail load, as measured at the retail meter. However, due to the 2012 REP Settlement Agreement, the IOUs are no longer required to submit residential and farm load forecasts.

The total retail load forecasts for all Utilities, and residential and farm load forecasts for the COUs, are adjusted for distribution losses. In addition, the total retail load forecasts are adjusted for any NLSL. 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 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 Ratios 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 resource, when adding or removing the resource results in a change of the Utility's Base Period ASC of two and one-half percent (2.5%) (the materiality threshold) or more. 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). For major resource reductions, the change to ASC will become effective when the resource is sold, retired, or transferred. 18 C.F.R. § 301.4(c)(2)

See Section 2.5 for a discussion of ASC Major Resource Additions or Removals.

To determine the effects of a major resource addition or reduction on a Utility's Exchange Period ASC, BPA performs one of the following calculations: (1) for major resources of all Exchanging Utilities that are expected to be on line, or be removed, prior to the start of the Exchange Period, BPA projects the costs of the resource forward to the midpoint of the Exchange Period; or (2) for major resources, of COUs only, that are expected to be on line, or be removed, during the Exchange Period, BPA calculates the resource cost as if the resource came on line, or was removed, at the midpoint of the Exchange Period. Under the REP Settlement, IOUs no longer include major resource additions that come on line during the Exchange Period. See Section 2.5.

Each resource that satisfies the minimum materiality threshold of one-half percent (0.5%) may be entered individually in the “New Resources – Individual” tab. Resources that do not meet the two and one-half percent (2.5%) materiality requirement independently may be grouped together with other resources in the “New Resources – Grouped” tab to meet the two and one-half percent (2.5%) 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 new resources that individually result in a change in a Utility’s Base Period ASC of one-half percent (0.5%) or more to meet the two and one-half percent (2.5%) 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’s ASC is changed as a result of a new resource addition.

BPA 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 Utilities in the FY 2016-2017 Draft ASC Reports:

- The 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 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 a Utility’s resources using the Utility’s adjusted Base Period ASC (per the Draft ASC Report) and forecast natural gas prices

used in BPA's Rate Case Initial Proposal. 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 natural gas price forecast will be the basis for the natural gas fuel costs used to calculate the materiality for new resource additions in both the Draft and Final ASC Reports.
- The Utility will have the option to recommend a "regrouping" of resource additions that meet the materiality test(s).
- 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 in this Final ASC Report are based on the Utility's final Base Period Base Period ASC (per the Draft ASC Report) and reflect the natural gas price forecast from the BP-16 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 a 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 CF/CT prior to September 1, 1979, and which will result in an increase in power requirements of ten (10) 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 exclude from its ASC the cost of resources necessary to serve the COU’s Above-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 Final 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. For background information and details, see <http://www.bpa.gov/news/pubs/PastRecordsofDecision/2009/TRM-12S-A-02.pdf>.

### 3.2.17 Above-RHWM Base Calculations

The Above-RHWM Base Calc tab calculates the cost of resources in an amount sufficient to serve a COU’s Above-RHWM load. Under the TRM and CHWM Contracts, BPA must exclude from a Utility’s ASC any Above-RHWM load and an amount of resource costs sufficient to serve such Above-RHWM load. To determine the amount of resource costs to exclude from a Utility’s ASC, BPA follows the methodology described in Exhibit D of the Utility’s CHWM Contract.

The associated Above-RHWM Ratios tab calculates the functionalization ratios used to allocate the total amount of materials and supplies costs, general plant and general plant depreciation expense, administrative and general costs, Federal and state employment taxes, and property taxes that are to be included in the total costs of resources used to meet a Utility’s Above-RHWM load.

## 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.

- $$\text{RHWM ASC} = \frac{\text{Contract System Cost} - \text{NewRes\$}}{\text{Contract System Load} - \text{NewResMWh}}$$
- 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 Final 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 in 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.
- $\text{NewRes\$} = \text{NewResMWh} \times \text{Fully Allocated Cost}$  (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 IHS Global Insight’s (an international economic and market forecasting company) forecast of cost increases for capital costs and fuel (except natural gas), operations and maintenance (“O&M”), and general and administrative (“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 rate 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-16 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 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).

### **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 IOU is required to provide a four-fiscal-year forecast of its total retail load, as measured at the 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. In addition, for the COUs, qualifying residential and farm retail loads, as measured at the retail meter, are required.

Each Utility is required to submit a current distribution loss study as described in the 2008 ASCM, Appendix 1, Endnote e. The total retail and the residential and 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 began the FY 2016–2017 ASC Review Process of Avista’s ASC Filing in June, 2014. BPA raised various issues related to Avista’s ASC Filing 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 List. This Final ASC Report summarizes the findings of Staff’s review of Avista’s ASC Filing, the BPA Issues List and Avista’s responses thereto, and any comments received during the Draft Report comment period.

BPA’s ASC determination is limited to specific findings on issues identified for comment, with the exception of ministerial or mathematical errors or deviations due to changes in functionalizations. There may be additional issues BPA has not identified for comment in this Final ASC Report. Acceptance of a Utility’s treatment of an item without comment does not signify a decision as to the proper interpretation to be applied either in subsequent ASC 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.

On April 3, 2014, prior to the start of the FY 2016-2017 ASC Review Processes, BPA held a workshop to review the schedule, rules of procedure, and past generic issues; explain the latest revisions to the Forecast Model; remind utilities on general accounting and functionalization guidelines for the Appendix 1; and provide time to discuss other REP topics of interest from the Parties.

Following review and discussion, the Parties and BPA resolved all questions and were satisfied with the outcome. No further public discussions took place

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

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 Errata Corrections and Issues**

<b>Appendix 1 Schedule</b>	<b>Adjustment</b>
<b>Schedule 1 – Plant Investment/Rate Base</b>	Errata corrections. See Sections 4.1.1, 4.1.2.1, 4.1.3.
<b>Schedule 1A – Cash Working Capital</b>	Erratum correction. See Section 4.1.4.
<b>Schedule 2 – Capital Structure and Rate of Return</b>	No direct adjustment.
<b>Schedule 3 – Expenses</b>	Errata corrections. See Sections 4.1.2.2, 4.1.2.3, 4.1.5.
<b>Schedule 3A – Taxes</b>	No direct adjustment.
<b>Schedule 3B – Other Included Items</b>	Erratum correction. See Section 4.1.6.
<b>Schedule 4 – Average System Cost</b>	Erratum correction. See Section 4.1.7.
<b>Appendix 1 Supporting Worksheets</b>	<b>Adjustment</b>
<b>Forecast Loads</b>	No direct adjustment.
<b>New Resource Additions</b>	Erratum correction. See Section 4.1.9. Direct adjustment. See Section 4.3.1.
<b>NLSL Calculation</b>	Erratum correction. See Section 4.1.8.
<b>Wind Resources</b>	No direct adjustment.
<b>Tiered Rates</b>	No direct adjustment.
<b>Salary and Wages</b>	No direct adjustment.
<b>Ratios</b>	No direct adjustment.
<b>ASC Forecast Model</b>	<b>Adjustment</b>
<b>Wheeling Revenues on New Resources Tab</b>	BPA Erratum correction. See Section 4.4.1.
<b>ASC Reported on ASC Tab</b>	BPA Erratum correction. See Section 4.4.2.

**4.1 Errata Corrections Filed by Utility**

Avista and BPA agreed to the following errata corrections. These errata were submitted by Avista to BPA’s Secure REP website on September 2, 2014.

#### **4.1.1 Schedule 1 Rate Base, Cells G61 and G63**

##### **Erratum Correction:**

An entry in the amount of \$55,202,105 was recorded in columns (b) and (c), Line 27, page 219, of Avista’s 2013 FERC Form 1 as “Regional Transmission and Market Operation.” This amount should have been recorded in columns (b) and (c), Line 28, page 219, of Avista’s 2013 FERC Form 1 as “General.”

On Line 61 (Transmission Plant), Schedule 1, remove the amount of \$55,202,105 from Cell G61. On Line 63 (General Plant), Schedule 1, add the amount of \$55,202,105 to Cell G63.

This erratum correction was the subject of Data Request BPA-AV-FY16-03.

#### **4.1.2 Reardan Wind Generation**

##### **4.1.2.1 Schedule 1.4, Cells F28 and H28**

##### **Erratum Correction:**

On Line 28 (Reardan Wind Generation), Schedule 1.4, remove \$852,642 from Cell F28 and add \$852,642 to Cell H28 to effect a change in functionalization from “Production” to “Distribution.”

This erratum correction was the subject of Data Request BPA-AV-FY16-05.

##### **4.1.2.2 Schedule 3.2, Cells H20, J20 and K20**

##### **Erratum Correction:**

On Schedule 3.2, Line 20 (Reardan Wind Costs), remove from each of Cells H20, J20, and K20, the amount of 2,533,578 to reflect the disallowance of those amounts functionalized to production in Account 557.

At the bottom of Schedule 3.2, prepare a recon showing the total of Account 557, the removal of Reardan Wind Costs, and the net expenses functionalized to production as follows:

Total Account 557	121,667,121
Less Reardan Wind Generation	(2,533,578)
Total Production	119,133,543

This erratum correction was the subject of Data Request BPA-AV-FY16-05.

### 4.1.2.3 Schedule 3, Cells E33, H33, J33, L33, N33

#### **Erratum Correction:**

Cell E33: Change default functionalization to “DIRECT.”

Copy format on Line 35, Columns L through N, and insert it on Line 33, Columns L through N.

Cell L33: Link “119,133,543” to the 3.2 557 detail tab formula should read as follows: ='3.2 557 Detail'!J40.

Cell N33: Link “2,533,578” to the 3.2 557 detail tab, formula should read as follows: ='3.2 557 Detail'!J39.

Copy formula in H35 and insert it in Cell H33. Cell H33 should read is as follows:  
=IF(\$E33="DIRECT",\$L33,VLOOKUP(\$E33,Ratio,2,FALSE)\*\$G33).

Copy formula in J35 and insert it in Cell J33. Cell J33 should read is as follows:  
=IF(\$E33="DIRECT",\$N33,VLOOKUP(\$E33,Ratio,4,FALSE)\*\$G33).

Confirm that Cells G33 through J33 have populated as follows:

121,667,121	119,133,543	-	2,533,578
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This erratum correction was the subject of Data Request BPA-AV-FY16-05.

### 4.1.3 Spokane River TDG – Schedule 1.4, Cells F40 and H40

#### **Erratum Correction:**

On Line 40 (Spokane River TDG) of Schedule 1.4, remove \$871,184 from Cell F40 and add \$871,184 to Cell H40 to effect a change in functionalization from “Production” to “Distribution.”

This erratum correction was the subject of Data Requests BPA-AV-FY16-10 and BPA-AV-FY16-11.

#### **4.1.4 Schedule 1A – Cash Working Capital Calculation, Cells C20 and D20**

##### **Erratum Correction:**

In Cells C20 and D20:

**DELETE RED TEXT:** ='Sch 3 - Expenses'!H16+'Sch 3 - Expenses'!H20+'Sch 3 - Expenses'!H27+'Sch 3 - Expenses'!H31+'Sch 3 - Expenses'!H34+'Sch 3 - Expenses'!H35+'3.2 557 Detail J29'.

**ADD RED TEXT** ='Sch 3 - Expenses'!H16+'Sch 3 - Expenses'!H20+'Sch 3 - Expenses'!H27+'Sch 3 - Expenses'!H31+'Sch 3 - Expenses'!H34+'Sch 3 - Expenses'!H35+G30.

This erratum correction was the subject of Data Request BPA-AV-FY16-08.

#### **4.1.5 Schedule 3.1 – 908 Detail, Cells J27 and J28**

##### **Erratum Correction:**

Update the proportions of DSM and LIRAP in Cells J27 and J28 to 80.7 percent DSM (Production) and 19.3 percent LIRAP (Distribution).

This change lowers the Production allocated amounts in FERC Account 908600 to \$15,556,746 (Cell I27) and to \$381,972 (Cell I31) in FERC Account 908690.

This erratum correction was the subject of Data Request BPA-AV-FY16-01.

#### **4.1.6 Schedule 3B.2, Cell J24**

##### **Erratum Correction:**

Change the functionalization of the entry “RW REC’s Exclusive to Washington State” in Cell I24 in the amount of \$162,500 from Distribution to Production.

Update the totals formula in Cell I32 to include the reclassified production amount from Cell I24.  
Update the totals formula in Cell I34 to exclude the reclassified production amount from Cell I24.

This erratum correction was the subject of Data Request BPA-AV-FY16-02.

#### **4.1.7 Schedule 4 – New Large Single Loads (NLSL)**

##### **Erratum Correction:**

Add the amount of 162,695 representing Avista’s NLSL to Cell F45.

#### **4.1.8 Schedule 4.1, Cell E49**

##### **Erratum Correction:**

In Cell E49 on Schedule 4.1, change the formula from “=D49/87840000” to “=D49/8760000.”

#### **4.1.9 New Resources – Individual Tab**

##### **Erratum Correction:**

On the New Resources – Individual tab, clear contents from Cells 6G through and including 6R.

#### **4.2 Decisions on Draft Report Resolved Issues**

At the time of the Draft ASC Reports, BPA did not identify any resolved issue that required a decision; all issues were amended through errata corrections. No other party raised issues with, or commented on, Avista’s June 2, 2014, ASC Filing.

#### **4.3 Decision on Draft Report Unresolved Issue**

During the ASC Review Process, BPA Staff raised a single issue discussed in this section. Avista responded to the issue in its September 3, 2014, Issue List response. Following the issuance of the Draft ASC Report, Avista submitted a letter (“Comment Letter”) on April 13, 2015, notifying BPA that it “does not have any comments on the FY 2016-17 Draft Average System Cost reports.” BPA considers the issue identified in this section as resolved.

#### **4.3.1 New Resources Tab, Account 456.1, Revenues from Transmission of Electricity of Others**

##### **Issue:**

*Whether Avista correctly recorded (\$11,692,000) on the New Resources Tab, Account 456.1, Cell F92.*

##### **Parties’ Positions:**

Avista contends that \$11,692,000 of revenue that is recorded in the base period ASC should not be included in the calculation of its ASC for the Exchange Period because such revenue concerns

a settlement for a prior period, will not continue, and would materially misstate the known amount of revenues for the Exchange Period. Avista recorded the settlement payment as a negative amount (**(\$11,692,000)**) on the New Resources tab to negate the effect of the settlement payment on its ASC for the Exchange Period.

### **BPA Staff's Position:**

BPA Staff believes it was improper for Avista to record the \$11,692,000 settlement payment as a negative value on the New Resources tab, Account 456.1, Cell F92.

### **Evaluation of Positions:**

BPA and Avista entered into a Parallel Operation Agreement on December 12, 2012 (Avista Contract No. AV-TR12-1110; BPA Contract No. 12TX-15710) (“Agreement”). Under the Agreement, Avista received a payment of \$8,500,000 from BPA in 2013, the Base Period, to resolve BPA’s use of Avista’s transmission lines from 2005 to 2011. As part of the Agreement, BPA also agreed to pay Avista \$266,000/month (or \$3,192,000 per year) for transmission system use beginning in 2012 (“Monthly Use Payment”). In its ASC Filing, Avista recorded \$14,884,000 in Cell I39, Account 456.1, PC Parallel Capacity Support Rev, on Schedule 3B.2 (to record revenue received). This value reflects the combination of the \$8.5 million payment from BPA for past usage of Avista’s transmission system plus two years of Monthly Use Payments made by BPA ( $\$8,500,000 + \$6,384,000 = \$14,884,000$ ). Avista entered the same total amount in Account 456.1 of its FERC Form 1 filing. Out of the \$14,884,000, Avista identified (**(\$11,692,000)**) in Cell I42, Schedule 3B.2, as Parallel Capacity Revenue that will not continue into the future (“Settlement Payment”).

Avista contends that \$11,692,000 should not be included in its ASC calculation for the Exchange Period (even though it was received in the Base Period) because these payments will not continue throughout the Exchange Period. Avista claims that this represents a monetary component of a long-term transmission contract that would not be continued through the Exchange Period, citing 18 CFR § 301.4(c)(3) in support. Avista argued that by leaving the amount in the Base Period, Avista would effectively be including nearly five times the amount of known revenue in the Exchange Period. To negate this effect on its ASC, Avista added a resource to the new resource tab with a negative value of \$11,692,000. Avista argued that absent this negative Settlement Payment entry on the New Resources tab, Avista’s revenues would be overstated, which would violate ratemaking principles. *See* Avista’s response to Data Request BPA-AV-FY16-07.

Alternatively, Avista proposed that the Base Period be adjusted to move the \$11,692,000 settlement payment to the Distribution/Other functionalization. This would have the effect of neutralizing the impact of the revenue in the Base Period and the Exchange Period. Avista contended this treatment would be consistent with the methodology accepted by BPA for the “Reardan” costs, as updated in Avista’s Errata filing.

Avista's proposed treatment of the Settlement Payment was not consistent with the 2008 ASCM. Section 301.4(c) of the 2008 ASCM provides the requirements for including a resource addition or reduction in the New Resources Tab:

(1) During the Exchange Period, Bonneville will allow changes to a Utility's ASC to account for major resource additions or reductions that are used to meet a Utility's retail load. These changes, however, must meet the requirements of paragraph (c)(3) of this section and the materiality threshold described in paragraph (c)(4) of this section in order for Bonneville to allow an ASC to change. The ASC reflecting the major resource addition or reduction will be determined by Bonneville in the ASC review process during the Review Period.

(2) For major resource additions, the change to ASC will become effective when the resource begins commercial operation, or power is received under the purchased power contract. For major resource reductions, the change to ASC will become effective when the resource is sold, retired, or transferred.

(3) A major resource addition or reduction must be related to one or more of the following categories to be eligible for consideration as a major resource:

- (i) Production or generating resource investments;
- (ii) Transmission investments;
- (iii) Long-term generating contracts;
- (iv) Pollution control and environmental compliance investments relating to generating resources;
- (v) Long-term transmission contracts;
- (vi) Hydroelectric relicensing costs and fees; and
- (vii) Plant rehabilitation investments.

(4) 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. . . .

(5) At the time the Utility submits its Appendix 1 filing, the Utility will provide its forecast of major resource additions or reductions and all associated costs. The forecast will cover the period from the end of the Base Period to the end of the Exchange Period.

In sum, four general requirements must be met for a resource to be included as a major resource addition/reduction in the New Resources tab: (1) the resource must be an *additional* resource that is not already reflected in the utility's Base Period ASC or if it is in the Base Period ASC, it must be a *termination/removal* of a resource; (2) the resource addition or reduction must be related to

one of the items in 18 C.F.R. § 301.4(c)(3); (3) the new resource must be forecast to begin commercial operations (for an addition) or “sold, retired, or transferred” (for a reduction) “from the end of the Base Period to the end of the Exchange Period”; and (4) the resource must meet the materiality requirements.

Applying these general requirements to the treatment Avista had proposed for the Settlement Payment revealed that the Settlement Payment did not meet several of the requirements of the 2008 ASCM. The Settlement Payment did not meet the first requirement because it was already reflected in the Base Period ASC. The Settlement Payment and Monthly Use Payments provided under the Agreement were recorded in the 2013 FERC Form 1, which was used to determine Avista’s Base Period ASC. In this way, the Settlement Payment was not an “additional” resource at all; it was a payment that had been reflected in Avista’s Base Period ASC and must remain as such. Moreover, even if it could be considered an “additional” resource, it must have commenced commercial operations “from the end of the Base Period to the end of the Exchange Period” (i.e., January 1, 2014 to September 30, 2017) to be eligible for inclusion in the New Resources Tab. 18 C.F.R. § 301.4(c)(5). The Agreement, however, was executed in December 2012, well before the 2008 ASCM’s permitted timeframe.

The 2008 ASCM does contemplate that a utility may remove the costs/payments associated with major resource *reductions* through the New Resource tab. However, for these major resource reductions to be included in the New Resources tab they must be associated with the items listed in 301.4(c)(3) *and* be “sold, retired, or transferred . . . from the end of the Base Period to the end of the Exchange Period.” Here again, the Settlement Payment did not appear to satisfy the requirements of the 2008 ASCM. The Agreement leading to the Settlement Payments was executed by BPA and Avista prior to the Base Period in December 2012, with the Settlement Payments being made in CY 2013. As such, this “reduction” in Avista’s resource mix could not be included as a New Resource because the event leading to a change in Avista’s transmission revenues occurred *during* the Base Period (and not from “the end of the Base Period to the end of the Exchange Period”).

Avista’s proposed treatment of the Settlement Payment also did not fit within the list of acceptable events that may constitute a resource addition or reduction as identified in 301.4(c)(3). The closest categories Avista could have relied upon would be either “Transmission investments” or “Long-term Transmission contracts.” But, to enter a *negative* value for either of these categories in the New Resources tab, Avista would need to demonstrate it expected a transmission investment or a long-term transmission contract to be “sold, retired, or transferred.” The Settlement Payment, however, is not a transmission asset that is being retired; rather it is a payment for a prior-period that is appropriately being reflected in the Base Period. Moreover the underlying “transmission agreement” is not terminating, being retired, or transferred – it continues on into and through the Exchange Period.

Accordingly, Avista’s proposal to include the Settlement Payment as a negative value in the New Resource tab could not be sustained. The payment itself is reflected in the data used to calculate the Base Period ASC, and no provision of the 2008 ASCM permits BPA from altering this entry. The proper 2008 ASCM treatment for the \$11,692,000 Settlement Payment and the \$3,192,000 Monthly Use Payments provided under the Agreement is to reflect these revenues as

out-of-period adjustments that must be recorded in the year the payments were received, *i.e.*, the 2013 Base Period. The 2008 ASCM does not permit offsetting adjustments to these payments, and instead applies the “CONSTANT” escalation code for Account 456.1, Revenues from Transmission of Electricity of Others. In addition, the Agreement cannot be considered a major resource “addition” because the commencement of commercial operations for the Agreement did not occur “from the end of the Base Period to the end of the Exchange Period.” Also, the Agreement and Settlement Payment cannot result in a negative entry to the New Resources tab as a resource “reduction” because no actual transmission asset or agreement is being “sold, retired, or transferred.”

Avista claimed treating the Settlement Payment and Monthly Use Payments as out-of-period adjustments would materially misstate Avista’s Exchange Period ASC and was inconsistent with ratemaking principles. BPA understands Avista’s concerns, but BPA is required to calculate Avista’s ASC pursuant to the provisions of the 2008 ASCM. BPA’s treatment is consistent with the 2008 ASCM, and thus, Avista’s ASC is not misstated. Similarly, the argument that treating the Settlement Payment and Monthly Use Payments as out-of-period adjustments would violate ratemaking principles was not persuasive. The 2008 ASCM prescribes how the treatment of Utilities’ costs and revenues in determining ASCs. The 2008 ASCM does not provide that general ratemaking principles will supersede the express provisions of the 2008 ASCM.

Avista also references the costs associated with the Reardan Wind Project as an instance where costs included in the original Base Period ASC were removed by BPA, resulting in a change to Avista’s Exchange Period ASC. This example, however, is inapposite to the present situation because the Reardan Wind Project involved costs associated with a terminated plant. As explained below, these types of costs are required by statute to be removed from a utility’s ASC.

The “Reardan Wind Project” was a proposed wind project which, at the time the project commenced, was Avista’s least-cost option to comply with the Energy Independence Act (EIA). However, four years later, before project construction had begun, Avista reevaluated the estimated costs of the project and was able to obtain renewable energy through an alternate source. Additionally, the EIA was amended, which allowed Avista to use one of its existing resources to satisfy EIA requirements. As a result, Avista decided to abandon the Reardan Wind Project. The Washington Utilities and Transportation Commission authorized Avista to recover its share (\$2.4M) of the total \$4M expenditures in rates.

Pursuant to section 5(c)(7)(C) of the Northwest Power Act (“NWP”), costs from any generating facility which is terminated prior to its initial commercial operation date cannot be included in a utility’s ASC. 16 U.S.C. § 839c(c)(7)(C); *see also* 18 C.F.R. § 301.2 (“Under no circumstances will Contract System Cost include costs excluded from ASC by section 5(c)(7) of the Northwest Power Act. 16 U.S.C. 839c(c)(7).” Avista initially included the Reardan costs in its Appendix 1, but after recognizing that these costs were prohibited under the NWP, submitted an erratum correction to remove them. In Avista’s erratum correction covering the Reardan costs, Avista changed the Production functionalization to a Direct functionalization in Account 557 on Schedule 3 in order to reflect the Reardan costs as Distribution/Other. This functionalization was at a “CONSTANT” escalation similar to Schedule 3B, Account 456.1, Revenues from Transmission of Electricity of Others, where the Settlement Payments are

recorded. This treatment provides no precedent for the instant case, which involves an out-of-period Settlement Payment and not a terminated plant cost.

For the foregoing reasons, BPA will remove the (\$11,692,000) Settlement Payment from the New Resources tab, Account 456.1, Cell F92.

**Decision:**

*BPA will remove the (\$11,692,000) Settlement Payment entry from the New Resources tab, Account 456.1, Cell F92.*

**4.4 ASC Forecast Model Errata Corrections**

On May 15, 2014, BPA released its latest ASC Forecast Model to be used for the FY 2016–2017 ASC Review Processes. Following that release date and after the June 2, 2014, Utility submissions, BPA discovered two formula discrepancies in the ASC Forecast Model as described below.

**4.4.1 Wheeling Revenues on New Resources Tab**

BPA discovered a formula error in the worksheet that calculates the costs to be included in a Utility’s Exchange Period ASC. The worksheet was not recognizing the wheeling revenues included on the Utility’s New Resources Tab. BPA corrected this error for the Forecast Model used for the Draft and Final ASC Reports. See ASC Forecast Model, Line 311 of the Total & Functionalization Tab.

**4.4.2 ASC Reported on ASC Tab**

BPA discovered an error in the macro that reports the lowest ASC for Utilities that have either an NLSL or Above-RHWM load. When the ASC calculated with an NLSL was equal to the ASC calculated with both an NLSL and Above-RHWM load, the ASC Forecast Model would report the ASC calculated without removing the costs of serving the Utility’s NLSL. BPA corrected the macro error for the ASC Forecast Model used for the Draft and Final ASC Reports. See ASC Forecast Model, Lines 106–131 of the ASCs Tab.

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## 5 GENERIC ISSUES

In addition to the foregoing issues, which are limited to Avista, Portland General raised one issue on the meaning of “most recently approved Regulatory Body Rate Order.” This issue may be generic to all IOUs, and was not included in BPA’s Issue List as a generic issue; it was included in the Draft ASC Reports. With the exception of Portland General and the Oregon Public Utility Commission, no comments were received. BPA has removed this generic issue from all ASC Reports and will address it prior to the June, 2016 ASC Filing. See Portland General’s Final ASC Report, Section 4.3.1, for additional information.

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## **6 FY 2016–2017 ASC**

Avista's As-Filed Base Period (CY 2013) ASC was \$52.91/MWh. As a result of adjustments made during the ASC Review Process, Avista's Base Period ASC decreased to \$52.79/MWh.

Avista's As-Filed Exchange Period ASC for FY 2016–2017 was \$54.50/MWh. As a result of adjustments made during the ASC Review Process, Avista's Exchange Period ASC for FY 2016–2017 decreased to \$50.87/MWh. Avista had no major resources coming on line or being removed prior to the Exchange Period.

This Exchange Period ASC does not reflect any changes in NLSL status. See Section 2.6 for potential NLSL adjustments to Exchange Period ASCs.

## **7 REVIEW SUMMARY**

This Final ASC Report is BPA's determination of Avista's FY 2016 and FY 2017 ASC based on information and data provided by Avista, including comments, if any, received in response to the Draft ASC Report, and based on the professional review, evaluation, and judgment of BPA's REP Staff.

BPA has resolved the issues set forth in Section 4 of this Report in accordance with the 2008 ASCM and with generally accepted accounting principles. The information and analysis contained herein properly establish Avista's ASC for FY 2016–2017.

## **8 APPROVAL ON BEHALF OF THE BONNEVILLE POWER ADMINISTRATION**

I have examined Avista's ASC Filing, as amended, and the administrative record of the ASC Review Process. Based on this review and the foregoing analysis of the issues, I certify that the calculated ASC conforms to the 2008 ASCM and generally accepted accounting principles, and fairly represents Avista's ASC.

Issued in Portland, Oregon, this 23 day of July, 2015.

BONNEVILLE POWER ADMINISTRATION

By: /s/ Mark O. Gendron  
Senior Vice President for Power Services

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BONNEVILLE POWER ADMINISTRATION  
July 2015