Office of the Secretary
Service Date
July 12, 2001

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION OF AVISTA CORPORATION DBA AVISTA UTILITIES—WASHINGTON WATER POWER DIVISION (IDAHO) FOR PROPOSED MODIFICATIONS TO THE POWER COST ADJUSTMENTS (PCA) METHODOLOGY.	)	**CASE NO. AVU-E-01-1** **ORDER NO. 28775**

On January 16, 2001, Avista Corporation dba Avista Utilities—Washington Water Power Division—Idaho (Avista; Company) filed an Application with the Idaho Public Utilities Commission (Commission) seeking approval of proposed modifications to its Power Cost Adjustment (PCA) mechanism. As justification for its proposed changes, the Company states that the cost of short-term power purchases has risen to unprecedented levels. The rising short-term market price for electric energy, the Company states, has resulted in a situation where Avista is forced to purchase power at prices that are higher than the price received when the power is sold to meet increased retail and wholesale system load requirements being experienced by the Company. The power supply expenses associated with meeting increased system load requirements, the Company notes, are not presently included in the PCA mechanism.

Short-term market prices, the Company states, have also created a situation where a forced outage at either the Colstrip or the Kettle Falls generating plant would result in extremely high replacement costs. Power supply expenses associated with thermal plant forced outages, the Company notes, are not presently included in the current PCA mechanism.

On February 1, 2001, the Commission issued Notices of Application and Intervention Deadline in Case No. AVU-E-01-1. Potlatch Corporation was the only party to intervene. Reference Order No. 28638. On March 14, 2001, the Commission issued a Notice of Modified Procedure and established a comment deadline of April 4, 2001. Comments were filed by Commission Staff and Potlatch. On April 11, 2001, the Company filed Reply Comments.

The amendments to the PCA deferral mechanism requested by the Company in greater detail are set forth below. Also included are the related comments of Commission Staff and the reply comments of the Company.

- **Proposed Retail Load Adjustment**

Application

The cost of power to serve changes in system load requirements is not included as part of the PCA mechanism. The Company contends that this cost is substantial and needs to be reflected in the PCA mechanism.

System load requirements, the Company states, have been impacted by increases in both retail and wholesale loads. Retail loads have increased due to load growth and colder than normal weather. Changes in wholesale loads have also impacted the amount of power that needs to be purchased. Wholesale loads are impacted by the expiration of both purchase and sale contracts and by increased takes under contracts because of the high short-term market prices. Holding system load requirements to levels from the last general rate case in the existing PCA mechanism, the Company states, must be changed.

Under the Company's proposed changes to the PCA, actual system load requirements will determine the actual power supply revenues and expenses. A revenue adjustment for the difference between actual and authorized revenue in the amended PCA mechanism is also proposed. Changes in wholesale sales contracts will be picked up in the calculation of the difference between actual and authorized revenues in Account 447. A retail revenue adjustment would be included to reflect the difference between actual and authorized retail revenue, adjusted for distribution costs to serve load growth.

Because the Company incurs incremental delivery cost to serve new load, the Company states it would not be appropriate to reflect the entire amount of difference between actual and authorized retail revenue in the deferral mechanism, as a portion of increased retail revenue is offset by increased costs to serve new load. The Company is proposing a distribution cost adjustment to retail revenue based on increases in customers by rate schedule. The difference between actual customers and authorized customers would be multiplied by distribution costs per customer from the Company's last cost-of-service study to arrive at the distribution cost adjustment.

Staff Comments

Avista proposes a retail load revenue adjustment to the PCA. The revenue adjustment would be a credit to offset the costs of power supply incurred due to load growth. New load is served at the marginal cost of power supply. The Company proposes to calculate total revenue from load growth and reduce it by the distribution costs of serving new load and credit the remaining back to the PCA to offset PCA power supply costs.

Staff has an alternative proposal that borrows from Idaho Power's PCA methodology. Instead of crediting back a portion of revenue to offset one set of power supply costs, the method used in Idaho Power's PCA removes the variable cost of load growth related power supply costs from the PCA costs and allows the Company to keep the retail revenue as it normally would. The adjustment uses the variable cost of power supply on the margin that can be determined using the power supply model accepted in the Company's last general rate case. For Avista this number is 21.23 mills/kWh. Each month the average marginal cost of power supply is multiplied times the growth in load and the product is used to reduce actual monthly power supply costs. Staff believes that this adjustment is easily computed and more accurate than the Company proposed adjustment.

Company Reply

The Company believes that its revenue adjustment for retail load is preferable to the adjustment proposed by Staff. The Company is proposing a retail revenue adjustment that reflects the difference between actual and authorized retail revenue, adjusted for distribution costs to serve new customers. Staff proposes a revenue credit computed using a variable cost of power supply of 21.23 mills/kWh multiplied by the growth in load. The Company believes that the Staff approach does not credit enough revenue as an offset to increase power supply costs to serve growth and load. Staff's figure of 21.23 mills/kWh for the retail load adjustment, the Company contends, is less than half the average revenue per kWh for retail customers of approximately 52 mills/kWh.

In the case of a new customer, Avista contends that all the revenue from the new customer represents an increase in revenue above authorized revenue in the last rate case. The Company incurs distribution costs to serve the new customer. Therefore, the Company contends that revenue from a new customer minus distribution costs should be available to offset the increase in power supply costs to serve the new customer's load.

In the case where an existing customer's load decreases for some reason, Avista contends that the resultant decrease in retail revenue should be recoverable as an offset to the reduction in power supply costs recorded in the PCA deferral account resulting from the decreased load.

After further analysis and discussion, the Company has agreed to accept the Staff load growth adjustment. Staff has also agreed to an adjustment to power supply costs in the event of a decrease in retail load.

Consensus

As agreed to by the Company and Staff, a revenue credit for retail load will be computed using a variable cost of power supply of 21.23 mills/kWh multiplied by the growth in load. A reciprocal adjustment will be made in the event of a decrease in retail load.

- **Actual Accounting Data**

Application

The power costs for deferral purposes under the existing PCA mechanism are limited to the effect of short-term market prices on short-term transactions, Rathdrum turbine generation and fuel cost, hydro electric generation, the modeled impact of thermal generation and PURPA contracts. The Company is proposing to amend the PCA mechanism to include the impact of changes in retail and wholesale system load requirements and changes in actual thermal generation. Specific power supply accounts included for deferral purposes under the amended PCA mechanism would include Account 447—Sales for Resale, Account 501—Fuel (thermal), Account 547—Fuel (combustion turbine), and Account 555—Purchased Power. Deferred costs would be based on the difference between the actual revenues and expenses recorded in these accounts, and the normalized level for these accounts approved by the Commission in the last general rate case.

The current PCA mechanism models the amount of Colstrip and Kettle Falls thermal generation based on the short-term market price of power for the month and the incremental operating cost of the unit. Power supply expenses associated with thermal plant forced outages, the Company states, are not included in the current PCA mechanism because the mechanism is based on modeled rather than actual generation.

Staff Comments

Avista proposes that Actual Fuel Costs, Accounts 501 and 547, Actual Purchase Power Costs, Account 555 and Actual Secondary Sales Revenues, Account 447, be used in the PCA calculation instead of computer modeled actuals.

The heart of the PCA, Staff states, is the calculation of the total of Accounts 501 and 547 Fuel Costs, Account 555 Purchased Power Costs and Account 447 Secondary Sales Revenue in comparison to the total of the same accounts from the Company's last general rate case. This difference is called the difference between "actual" and "authorized" power supply costs.

Avista's current PCA captures the difference between "authorized" power supply costs from the last general rate case and a computer "modeled actual" power supply cost which only contained two "actual" inputs, actual hydro generation and actual average monthly market price. In addition to these two actuals, Avista's proposed PCA would capture the effects on power supply costs of actual loads, unit costs of fuel, availability of generation resources, energy purchases for the system, energy sales from the system and anything else that affects the balances in the previously identified power supply cost accounts.

To the extent that power purchase costs and power sales revenues are limited to energy purchases and sales contracts for terms less than one year, Staff notes that this part of Avista's proposal is the same as Idaho Power's existing PCA. However, Avista proposes to also include capacity contracts and all purchase and sale contracts without regard to the length of the contract. A concern of including long-term contracts in the PCA, Staff states, is that the PCA mechanism not inappropriately influence the decisions of the utility regarding resource additions. If the mechanism favors long-term contracts as opposed to construct and rate base options, Staff contends that the Company may make decisions that are not in the best interest of ratepayers.

Staff recommends that the "one-month lag" accounting treatment approved in Avista's current PCA be eliminated. Staff represents that this has been discussed with the Company and the Company is in agreement. This will allow monthly PCA results to be booked in the month that the costs are incurred instead of the following month.

Staff recommends that other generation additions and power supply contracts with terms longer than one year be submitted to the Commission for review and Commission approval. Staff understands that actual accounting entries will be effective starting with the delivery of energy. If for some reason Commission approval for PCA treatment is not granted, the cost differences can be unwound. Staff recommends a maximum review period of 90-days.

Company Reply

Avista concurs with Staff's explanation of the existing and proposed PCA mechanisms and the need to use actual accounting data rather than "modeled actual" data to properly record PCA deferrals. Regarding the inclusion of long term purchase and sales contracts in the PCA mechanism, Avista accepts Staff's recommendation that generation additions and power supply contracts with terms longer than one year be submitted to the Commission for review and Commission approval. Avista accepts Staff's recommended maximum review period of 90 days.

The Company and Staff agree that the "one-month lag" accounting treatment be eliminated under the new methodology and that the Commission address its elimination in its Order.

Consensus

As agreed to by the Company and Staff, Actual Fuel Costs, Accounts 501 and 547, Actual Purchase Power Costs, Account 555, and Actual Secondary Sales Revenues, Account 447, will be used in the PCA calculation instead of computer modeled actuals. Generation additions and all purchase and sale power contracts with terms longer than one year will be submitted to the Commission for review and approval. The parties also agree to eliminate the "one month lag" accounting treatment in the PCA.

- **Centralia vs. Replacement Cost**

Application

The Centralia steam generating plant is included in the PCA based on fixed levels of "authorized" generation and "authorized" fuel costs. In May 2000 Centralia was sold. The Company is proposing to modify the PCA to reflect the elimination of Centralia generation and fuel costs as a result of the sale. The Company proposes to reflect a credit for Centralia operation and maintenance expense, depreciation, taxes and return on investment as these costs no longer exist as a result of the sale. Replacement power costs would be captured in the difference between actual and authorized levels of costs in Account 555—Purchased Power.

Staff Comments

Avista proposes that the Centralia generating station be replaced by the "replacement contract" in the modified PCA. Centralia was sold, with Commission approval, in May of 2000 and the Company began receiving energy from the replacement contract in July of 2000. The change proposed by the Company is automatically captured in the actual booked power supply account numbers except for the fixed costs of Centralia which are currently included in rates. The Company proposes a credit in the PCA for these costs that are identified as operation, maintenance, depreciation, taxes and return on investment.

Staff recognizes that if actual costs, that do not include generation from Centralia are tracked in a modified PCA, then replacement power costs will be included. If the Centralia "replacement contract" is excluded from the modified PCA, then the default resource will be market purchases. Although the terms of the "replacement contract" have not been formally reviewed by the Commission, Staff believes that the "replacement contract" is much more cost-effective than market purchases. Also, the "replacement contract", Staff notes, expires in just over a year, so the Commission will have the opportunity to review subsequent replacement resource decisions and determine ratemaking treatment. To deny the requested change, Staff states, would be technically difficult since the elimination of Centralia and the inclusion of the replacement contract and the associated effects are captured in the actual booked accounting entries that the Company proposes to use. Unwinding the effects from the booked power supply costs could in theory be done using a computer simulation, but Staff states it would be complicated and not completely accurate.

Company Reply

The Company and Staff are in agreement that the replacement power costs for Centralia captured in the actual booked power supply account numbers, coupled with the credit for the fixed costs of Centralia reflected in rates, but no longer being incurred, is the proper way to treat Centralia in the modified PCA mechanism.

Consensus

As agreed to by the Company and Staff, the Centralia generating station will be replaced in the modified PCA by the replacement power costs for Centralia coupled with a credit for the fixed and variable costs of Centralia reflected in rates (i.e., fuel, operation, maintenance, depreciation, taxes, and return on investment).

- **Coyote Springs 2**

Application

The Coyote Springs 2 project is a combined-cycle natural gas-fired combustion turbine with generation output of approximately 280 MW. The project is fully licensed. Construction of this plant began in January 2001. Completion of the project is expected in the summer of 2002. Under the modified PCA mechanism proposed, the increase in fuel costs associated with the plant as well as the impact on sales for resale and purchased power will be reflected in the calculation of PCA deferral. In addition, the Company proposes to reflect a charge in the PCA mechanism for operating and maintenance expense, depreciation, taxes and return on investment associated with the Coyote Springs 2 project until such time as these costs are reflected in general rates.

Staff Comments

Avista recommends that the Coyote Springs 2 generation station be included in the PCA when it comes on line in 2002.

Staff does not believe that the Commission should make a decision now concerning the future PCA treatment of Coyote Springs 2. Staff believes that the Company should file a ratemaking proposal for Coyote Springs 2 at or just prior to project completion.

Company Reply

The Company accepts Staff's recommendation and will make a filing concerning the PCA treatment of Coyote Springs 2 at least 90 days before the plant is operational.

Consensus

As agreed to by the Company and Staff, the Company will make a filing concerning PCA treatment of Coyote Springs 2 just prior to project completion.

- **Portland General Electric (PGE) Capacity Sale**

Application

The PGE capacity contract revenues reflected in Account 447—Sales for Resale, the Company states, will be increased to include additional amortization for ratemaking purposes so that the total PGE contract revenue is equivalent to the revenue that would have occurred absent the monetization of the contract. Stated differently, the monthly PCA deferrals will not be impacted by the PGE contract monetization, because revenues will be adjusted to the level under the old contract and that same level of revenue is reflected in the authorized amounts from the last general rate case.

Staff Comments

Avista recommends that the PGE capacity sale remain unchanged for PCA purposes.

The Company's proposal, Staff states, requires no changes to actual booked power supply costs. The actual accounting data correctly captures the power supply effects of the contract. Treating the contract the same way it was treated in the general rate case, Staff contends, will cause no PCA impacts because there will be no difference between "actual" and "authorized" amounts until the contract expires.

Company Reply

The Company and Staff agree that the benefit of the PGE capacity sale as captured in rates in the Company's last general rate case should remain unchanged. This issue, the Company contends, needs some clarification. Staff states in its comments that to reach the intended outcome of no PGE revenue adjustment in the PCA that no changes are required to the actual booked power supply costs. The Company contends that this is not the case. The actual accounting data reflects lower revenue as a result of the monetization of the PGE capacity sale that is reflected in rates. Avista's Application addresses the adjustment necessary to increase the recorded revenue to the level of revenue under the old contract that is reflected in rates. The Company is proposing that an additional amount of revenue be added to the recorded revenue so that there is no PCA impact of the PGE capacity sale.

Consensus

As agreed to by the Company and Staff, an additional amount of revenue will be added to the recorded revenue in Account 447 so that there is no PCA impact of the PGE capacity sale.

- **90/10 Risk Sharing**

Application

The Company is proposing to defer 90% of the differences described above under the amended PCA deferral mechanism. The remaining 10% of the differences would not be deferred and would impact earnings in the month they were incurred. The 90%/10% sharing would not be applied to the Centralia and Coyote Springs 2 adjustments for operation and maintenance expense, depreciation, taxes and return on investment. The 90%/10% sharing mechanism is being proposed as an incentive for the Company to keep power supply costs as low as possible and to reflect a sharing between customers and shareholders. The Company points out that it does not have any influence on the short-term market price of power.

Staff Comments

Avista proposes to share the variable costs of power supply 90/10 between customers and shareholders. These are the same sharing percentages currently contained in Idaho Power's PCA.

Staff believes that sharing is essential to provide the Company with the correct incentives to make the best possible decisions. To the extent that customers and shareholders win and lose together as the Company makes power supply decisions, Staff believes that the best possible decisions will be made.

The Company's PCA proposal, Staff notes, would exclude fixed power supply cost adjustments associated with Centralia and Coyote Springs 2 from 90/10 sharing. These costs are fixed operation, maintenance, depreciation, taxes and return on investment. The Company's proposal is that these increases or decreases in costs be passed to ratepayers through the PCA with no shareholder sharing.

Staff expresses concern about the Company's proposal to not share the fixed costs of new company owned generation supplies. If fixed power supply costs are subsequently allowed in the PCA and are not shared, Staff contends that the playing field for new resource additions is not level. Through the PCA, the Company proposes to recover 100% of the fixed costs of build and rate base options but only 90% of all costs of long-term purchase contract options. This inequity, Staff contends, could inappropriately influence Company choices for new resources. Staff believes that this issue should be further addressed when the Company requests cost recovery for Coyote Springs.

If new Company-owned generation is approved for PCA treatment, Staff recommends that any fixed costs included in the PCA be shared between customers and shareholders on a 90/10 basis instead of a 100% pass through to customers as proposed by the Company. Staff contends that this change will level the playing field for new resource acquisitions.

Staff recognizes that the proposed changes to Avista's PCA are extensive in that they depart from the philosophy that the PCA only capture power supply cost changes outside of the Company's control. The Company's new proposal, Staff states, captures all differences between "authorized" and "actual" power supply costs which include many discretionary decisions by the Company. The proposed 90/10 sharing is in Staff's view a necessary component that addresses the change in philosophy. With sharing, Staff contends that good decisions benefit ratepayers and shareholders and poor decisions harm ratepayers and shareholders. Recent dramatic increases in prices on the wholesale market, Staff notes, have caused Avista's current PCA calculated power supply costs to depart entirely from reality. This, Staff notes, is a substantial reason for its support of these modifications.

Fixed power supply costs associated with Centralia are no longer an issue because Centralia generation costs have been removed in lieu of a replacement purchase contract.

Company Reply

The Company and Staff are in agreement on the 90/10 sharing between customers and shareholders for the variable costs of power supply. The Company accepts Staff's proposal of a 90/10 sharing for the fixed costs of new Company-owned generation.

Consensus

As agreed to by the Company and Staff, the variable costs of power supply will be shared 90/10 between customers and shareholders. There will also be a 90/10 sharing for the fixed costs of new Company-owned generation to the extent it is included in the PCA.

- **Effective Date and Surcharge/Rebate Limit**

Application

The current trigger for implementing a PCA rebate or surcharge is $3 million or about 2.5% of base revenues. Only two surcharges or rebates can be in place at one time. Two surcharges or rebates amount to $6 million or about 5% of base revenues. The Company is proposing to raise the limit on surcharges or rebates to $12 million or about 10% of base revenues. The Company suggests, however, that this limit be a guideline rather than a hard and fast rule. If circumstances arise that justify either a different trigger or limit amount, the Company proposes that it have the flexibility to structure its request to meet the circumstances.

Staff Comments

Avista proposes that the modifications proposed be effective January 1, 2001.

Staff notes that the Company has represented that for the months of January through March of 2001 the proposed methodology is more beneficial to ratepayers than the existing PCA methodology. A limited review supports the Company's contention.

Avista proposes a soft surcharge/rebate trigger of $12 million that is approximately 10% of the Company's annual revenue requirement. One of the reasons that the Company proposes a large soft trigger is that it hopes to ride through the current period of large accumulations in the deferral account due to anticipated poor water conditions and high market prices until the situation changes and the surcharge balance is gradually eaten away. As represented, the Company hopes to do this with no further PCA rate increases if the PCA modifications are approved. The Company is counting on a few things to make this happen.

Next year two wholesale contracts expire which will return resources for native load customer use. If water conditions return to near normal and market prices stay high, the balance to surcharge will decline as the Company sells excess energy into a high priced market.

Company Reply

The Company and Staff agree that PCA modifications be effective January 1, 2001.

The PCA trigger, the Company contends, needs some clarification. The Company is not proposing that the PCA trigger be raised to $12 million or approximately 10% of base revenues as represented by Staff. The Company proposes to maintain the current trigger for implementing the PCA rebate or surcharge at $3 million or about 2-1/2 % of base revenues. Under the old PCA methodology only two surcharges or rebates can be in place at one time. Two surcharges or rebates would amount to $6 million or about 5% of base revenues. The Company proposes that the limit, not the trigger, on surcharges or rebates be raised to $12 million or about 10% of base revenues.

However, the Company suggests that this limit be a guideline rather than a hard and fast rule. If circumstances arise that justify either a different trigger or limit amount, the Company proposes that it have the flexibility to structure its request to meet the circumstances. Avista is requesting just such flexibility over the next year and a half, or so. The Company presently has a $5,708,000 (4.763%) surcharge in place that was effective February 1, 2001, and a $2,364,000 (1.973%) rebate in place that was effective August 1, 2000. There is a surcharge balance in the balancing account of approximately $6.8 million at the end of March 2001. The Company is proposing that the surcharge balance in the balancing account be allowed to accumulate without implementing a surcharge rate adjustment at this time. As we progress through 2001 and 2002, the Company notes that changes in the Company's long-term contract rights and obligations move the Company toward a surplus condition. In addition, the Coyote Springs 2 project is expected to be completed by June of 2002. The surplus condition, the Company states, is expected to generate net revenues that can be used to offset the deferral balance.

Consensus

As agreed to by the Company and Staff, the PCA modifications will be effective January 1, 2001.

As agreed to by the Company and Staff, the limit, not the trigger, on surcharges or rebates will be raised to $12 million or about 10% of base revenues. Rather than a hard and fast rule, the Company, if circumstances arise, may request and seek to justify a different amount.

- **Interest on Balancing Account**

Application

The Company proposes that the amended PCA mechanism include a calculation of interest using the same methodology approved for calculating interest on deferred natural gas cost balances (i.e., the customer deposit rate—reference O.N. 28624, Case No. AVU-G-00-4).

Staff Comments

Avista proposes to accrue interest on monthly accumulations in the deferral account. The Company's current PCA balancing account does not accrue interest. The Company currently accrues interest on the balance in its purchased gas adjustment (PGA) balancing account. This interest rate is the same as the interest rate on deposits, currently 6%, that is reviewed and established annually by the Commission. The Company proposes that the interest applied to its PGA Balancing Account also be applied in the PCA Balancing Account proposed in this proceeding. Idaho Power Company accrues interest at the same rate on balances in its PCA balancing account.

Company Reply

Staff supports the accrual of interest on the PCA balancing account. The Company proposes that interest apply not only to the PCA balancing account but also to unamortized balances of future rebates and surcharges.

Consensus

As agreed to by the Company and Staff, monthly accumulation in the PCA deferral account (including unamortized balances of future rebates and surcharges) will accrue interest at the same rate as the Commission approved interest rate on deposits.

- **Periodic Reporting**

Application

The Company notes that it currently provides reports to the Commission on a monthly basis related to the deferrals and will continue to do so under the amended PCA mechanism. The reports would include all calculations and accounting entries.

Staff Comments

Avista proposes to continue to file detailed monthly reports with the Commission.

The reports filed by the Company, Staff contends, are valuable to the Commission and Staff in tracking accumulations in the account as well as for tracking surcharge and rebate amounts while they are in progress. Staff states that it uses the reports along with other information when the PGA is audited.

Company Reply

The Company and Staff are in agreement that the continued filing of detailed monthly reports is appropriate.

Consensus

As agreed to by the Company and Staff, the Company will continue to file detailed monthly PCA reports with the Commission.

Potlatch Comments

Potlatch notes that the changes proposed by Avista will enable the Company to recover most of the market impacts that can affect an electric utility in its PCA. The additions, however, Potlatch contends, add significant complexity to the PCA review process. The huge growth in the Company's wholesale sales and purchases and high wholesale prices have raised the stakes in PCA proceedings. While Potlatch does not question Avista's right to recover its prudently incurred power supply expenses, Potlatch suggests that Modified Procedure may no longer be an appropriate method of reviewing PCA filings if all the items proposed by Avista are folded into the PCA mechanism. Something more than the cursory review that occurs with notice and a comment proceeding, the Company states, may be required.

Potlatch recommends that the Commission consider attaching one or more of the following conditions to any approval of the PCA revisions Avista proposes:

- Restrict the adoption of the proposed changes to a limited period of time, perhaps two years, with a thorough review of the new methodology thereafter.
- Require an interim review after six months of any PCA adjustments processed under Modified Procedure to determine whether the adjustments were justified.
- Require full hearings of PCA filings that contain more factors than those presently allowed in the mechanism.

Potlatch suggests that the Commission review the most recent Avista rate case to determine whether adoption of the proposed PCA mechanism alters the risk factors assumed in the determination of Avista's cost of capital, or otherwise affects the prior revenue requirement determination.

Potlatch recommends that the proposed PCA changes be adopted only if the Commission is satisfied that they will serve the twin goals of obtaining reasonably priced electric power for Avista's customers while keeping Avista economically whole for its prudent activities in supplying these customers.

Commission Findings

The Commission has reviewed the filings of record in Case No. AVU-E-01-1 including the comments of the Commission Staff and Potlatch and the reply comments of Avista. Based on our review of the established record, we continue to find it reasonable to process this case pursuant to Modified Procedure, i.e., by written submission rather than by hearing. Reference IDAPA 31.01.01.204.

The changes in PCA methodology proposed by Avista are substantial. We are satisfied with and find acceptable the changes agreed to by Avista and Commission Staff, as more particularly described above in the body of this Order.

Potlatch does not object to the proposed changes but notes that the changes proposed will enable Avista to recover most of the market impacts that can affect an electric utility in its PCA. The changes, it states, also add significant complexity to the PCA review process. Potlatch suggests that Modified Procedure may no longer be an appropriate review process for the PCA if the changes are approved. Although Potlatch may be right in its assessment, we find that the continued appropriateness of Modified Procedure, is an issue that should be raised in the Company's next PCA filing. We agree with Potlatch that the changed methodology we approve in this case merits close monitoring. We find that a two-year review seems appropriate. After two years of operation with these changes we will expect the Company to file a report with this Commission detailing the operation of the modified PCA. The report should include total surcharge and rebate amounts recovered over the period, significant events that have impacted power supply expenses, changes in the long-term (greater than one year) supply/demand situation and mechanism modifications that may be justified.

Potlatch suggests further that the proposed changes in methodology reduce the Company's risk. While Potlatch's perception seems intuitively correct, there are other changes that also seem intuitively to increase the Company's risk. We note that we have no record in this case that would permit us to adjust either the Company's authorized return on equity or the Company's revenue requirement. That type of adjustment and analysis, we find, is more appropriately considered in a general rate case.

CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction over Avista Corporation dba Avista Utilities—Washington Water Power Division-Idaho, an electric utility, and the issues raised in Case No. AVU-E-01-1 pursuant to the authority granted in Idaho Code, Title 61 and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq*.

O R D E R

In consideration of the foregoing and as more particularly described above in the Commission's findings, IT IS HEREBY ORDERED and the Commission does hereby approve the changes in PCA methodology agreed to by Avista and Commission Staff. The Company is directed to file a conforming tariff for Commission approval to be effective January 1, 2001.

IT IS FURTHER ORDERED and the Company is directed to file a PCA report with the Commission by March 30, 2003.

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

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho, this day of July 2001.

PAUL KJELLANDER, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

DENNIS S. HANSEN, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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