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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE SUBMISSION OF THE STATUS REPORT OF AVISTA CORPORATION AND APPLICATION FOR A CONTINUATION OF A POWER COST ADJUSTMENT (PCA) SURCHARGE)

CASE NO. AVU-E-02-06

REPLY COMMENTS OF AVISTA CORPORATION

I. INTRODUCTION

Avista Corporation doing business as Avista Utilities (hereinafter Avista or Company), at 1411 East Mission Avenue, Spokane, Washington, respectfully files its Reply Comments in the above-entitled matter.

II. REPLY COMMENTS

The issues raised by Potlatch in their comments are premised on inappropriately applying "hindsight" to power purchase, gas purchase and small generation project decisions made by Avista to serve its customers. Potlatch contends that Avista would have been better off to have made "its electric and natural gas purchases at actual contemporaneous wholesale market prices, as measured by prices at Mid-C and at Sumas, Washington." Potlatch's "hindsight" approach is not the standard followed by the Commission. The appropriate standard is whether the Company made a reasonable decision based on the information available to the Company at the time the decision was made. The

Commission Staff followed this standard in its review of Avista's deferred power costs. Potlatch chose to ignore the standard in favor of its "hindsight" approach.

Potlatch had ample notice and ample opportunity to conduct its review. Potlatch was put on notice in October 2001 by Commission Order No. 28876 in Case No. AVU-E-01-11 that the Company was directed to file a status report on the PCA 60 days prior to October 11, 2002. The issues in this filing are not new. The record-low streamflow conditions and unprecedented high wholesale market prices that led to the high-priced power purchases were discussed in the surcharge proceeding a year ago. The acquisition of owned and leased small generation projects was also addressed by Avista in that filing.

A copy of the Company's status report filing, including testimony and exhibits, was delivered to both Mr. Conley Ward and Mr. Bill Nicholson by overnight mail on August 9, 2002. Despite 10 months of advance notice, Potlatch waited 31 days after it received the Company's filing to submit discovery requests centered on Potlatch's "hindsight" approach. Potlatch has ignored the portions of the Company's responses to the Potlatch discovery requests that repeatedly state that it is not appropriate to compare purchase prices to historical indexes and prices, but that the appropriate comparison is to prices that existed at the time that purchases were made.

The Company does not agree with Potlatch's comments with regard to capital costs for completed and cancelled small generation projects. The capital costs associated with the recently completed Company-owned Boulder Park generating project are not included in the PCA. The Kettle Falls Bi-fuel units are leased units which addressed resource needs at costs less than then prevailing market prices, are appropriately included in the PCA, and Commission Staff has recommended approval of these costs in the PCA.

The Devil's Gap small generation option was for the lease of diesel generators. The lease was cancelled due to the subsequent decline in market prices. The Staff has determined that the lease costs were prudently incurred to secure power at a cost lower than market. The Company does not agree, however, with the Staff's proposal to remove site preparation and setup costs associated with leased units under the premise that such costs are capital costs. These costs were necessary in siting the leased units. The Company submits that the costs were necessary, prudently incurred, and should remain in the PCA deferral.

The Othello small generation project was originally planned to be owned by the Company, but the project was cancelled and the cost included in the PCA represents the write-down of the value of the unit. The Othello project write-down costs are not capital costs from the standpoint of being a completed plant that is currently in service. The Staff has referred to the Othello project as lease costs in their comments at page 6. This is a mischaracterization. The Company believes that regardless of how the write-down is characterized, the Staff's conclusion is still valid that, "...these costs were reasonably incurred to reduce the overall power cost based on conditions at the time and should be included in the PCA as discussed above."

Should the Commission decide that the Othello write-down costs be removed from the PCA deferral balance, the Company respectfully requests that the costs be allowed to be recorded in Account 182.30-Other Regulatory Assets to be held for review until its next general case. The initial decision to pursue the project was prudent based on the energy environment at the time and provided a value to Idaho customers. Absent Commission authority for deferral as a regulatory asset, the Company could be put in the position of expensing the Othello write-down as a current period cost.

Commission Staff recognized in their comments at page 5 that, "Avista pursued various projects that allowed it to avoid additional high-cost purchases of energy from the short-term wholesale markets when the projects represented the lowest cost resource options available at the time." Pages 16 through 18 of Mr. Norwood's testimony discuss the 2001 small generation resources and the reason for their acquisition. The installation of small generation projects was one of the measures the Company undertook to mitigate the increased costs to the Company from the record-low hydroelectric generation conditions and the high wholesale market prices. If the Company had not pursued the small generation projects, the alternative at the time would have been to enter into purchase power contracts at the then prevailing prices that were higher than the cost of the small generation options.

Potlatch's contention that the direct assignment to Idaho of the cost of serving Potlatch may be inappropriate is without merit. With the expiration of the previous Potlatch contract on December 31, 2001, Potlatch receives service under the Idaho Extra Large Service - Schedule 25 rate schedule. The direct assignment of 25 aMW of Potlatch load to Idaho is necessary, as the production/transmission allocation does not reflect the new service under Schedule 25. The direct assignment is more fully explained on pages 19 through 21 of Mr. Norwood's testimony. Exhibit KON-5, page 1 of 1 shows the Idaho PCA benefit of the Potlatch contract change to be $1,365,540. A cost of $30 per MWh was used for the direct assignment cost of the 25 aMW shown on line 2 of KON-5. The $30 per MWh price is close to the average system cost of power. Therefore, contrary to Potlatch's allegations, the $30 price per MWh is a fair representation of average system cost and there is a substantial benefit to Idaho customers. Potlatch ignored the information that was available in the Company's filing.

III. SUMMARY

Potlatch's request for evidentiary hearings should be dismissed. Potlatch's "hindsight" approach is inappropriate and should not be considered by the Commission in rendering its decision in this case. The costs of small generation projects were reasonably incurred and should be allowed for recovery as proposed. If costs associated with Othello are to be removed from the PCA deferral, the Company requests that the costs be deferred in Other Regulatory Assets for review in a future general case. The direct assignment and costing of the 25 aMW of Potlatch load is reasonable and should be allowed in the PCA.

Dated at Spokane, Washington this 27th day of September 2002.

AVISTA CORPORATION

BY Kelly Norwood

Kelly O. Norwood
Vice-President, Rates and Regulation