DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
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FROM: SCOTT WOODBURY

DATE: AUGUST 22, 2002

RE: CASE NO. AVU-E-02-6 (Avista)
POWER COST ADJUSTMENT (PCA) SURCHARGE
APPLICATION FOR EXTENSION

On August 9, 2002, Avista Corporation doing business as Avista Utilities (Avista; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting a continuation of the electric Schedule 66 Power Cost Adjustment (PCA) surcharge of 19.4% ($23.6 million) currently scheduled to expire on October 11, 2002. The Company's present surcharge was authorized by the Commission in Order No. 28876 in Case No. AVU-E-01-11. In approving the existing surcharge, the Commission directed the Company to file a status report 60 days prior to expiration of the authorized surcharge period. In its Order, the Commission stated, "if that status report and our review of the actual PCA deferral balance supports continuation of the surcharge, we anticipate continuation of the surcharge for an additional period." As reflected in its filing, Avista states that the current status of the authorized surcharge period. Avista in that case estimated that the $30 million deferral balance at June 30, 2001, absent rate recovery would increase to $69 million at December 2001, $72 million at the end of 2002 and $88 million at the end of 2003. The Company requested a 27-month surcharge period through December 2003. In its Order, the Commission stated, "if that status report and our review of the actual PCA deferral balance (at the end of 12 months) supports continuation of the surcharge, we anticipate continuation of the surcharge for an additional period."

As reported by the Company the PCA deferral balance was $45.6 million at June 30, 2002. The deferred cost balances as reflected in the Company's PCA account are as follows:

Deferral balance at June 30, 2001	$30,007,057
Deferrals July 2001 through June 2002	48,442,371
Transfer of under-rebate	(49,073)
Transfer of under-surcharge	342,069
PGE monetization accelerated amortization	(20,783,521)
Interest	2,764,590
SubTotal—Account 186.38 balance at June 30, 2002	60,723,493
Revenues collected October 12, 2001—June 30, 2002	(15,123,265)
Unrecovered balance at June 30, 2002	$45,600,228

As reflected in the Company's previous PCA filing, hydroelectric generation through June 2001 for Avista was the lowest in the 73 years of record. The Company reports that it continued to experience those very low stream flow conditions through the remainder of 2001. The record low hydroelectric conditions in 2001, the Company states, required it to purchase energy in the forward short-term wholesale market to replace the lost generation and cover its energy deficiencies. These purchases, the Company contends, were made at unprecedented high wholesale market prices and caused deferral balances to increase substantially. The extraordinary power supply circumstances through mid-2001, especially the record low stream flows, the Company contends, continued to impact the Company's power cost deferral balances for the remainder of the year and into 2002. In fact, the Company states that of the deferrals of $48.4 million recorded between July 2001 and June 2002, approximately $46 million occurred during the last half of 2001 with the remaining $2 million occurring in the first half of 2002.

To mitigate the increased power costs, Avista states that it has increased operation of its thermal resources, and has aggressively pursued conservation and load curtailment programs. However, the Company states that the costs associated with the hydroelectric conditions, the cost of short-term power market purchases and increased thermal fuel costs have exceeded the benefits these measures provided.

The Company contends that investor concern surrounding its cash flows, deferral balances and the ability to recover costs in a timely manner have had an impact on the Company's finances that continues today. Avista's credit ratings, it states, are presently below investment grade and the rating agencies characterize the Company's outlook as negative. Avista contends that it is important for the Company to regain an investment grade rating as soon as possible so that longer term debt can be refinanced on more reasonable terms, benefiting customers with lower debt-related costs. Credit rates, the Company contends, will take time to be restored and continuation of the current surcharge, the Company contends, is one of the keys for Avista to continue to improve its financial condition.

Avista requests that the carrying charge applied to the unamortized PCA deferral balance be increased from the current customer deposit rate to a level that it contends is more reflective of the longer-term nature of the recovery period. Avista reports that the Company's embedded cost of debt as of June 30, 2002, is 8.88% , incorporating both long- and short-term debt. The Company proposes that the carrying charge be increased to a rate of 6%, as was recently authorized for Idaho Power.

The rates set forth under the proposed PCA Schedule 66 reflect an annual revenue surcharge amount of $23.6 million, or 19.4%. As proposed by the Company, the Schedule 66 rates would not change. The use of the deferred credit related to the monetization of the Portland General Electric (PGE) Sale Agreement as an offset to the power deferral balance to reduce the overall rate impact to customers, the Company notes, will continue through the end of 2002. After that point, the ongoing PCA deferral entries will be adjusted to reflect the fact that the PGE credit has been fully returned to customers.

The Company proposes the continuation of the surcharge for a 12-month period, beginning October 12, 2002, and continuing through October 11, 2003. Prior to expiration of that term, the Company would file a status report with the Commission and request a continuation of the surcharge as necessary, to allow recovery of any unrecovered PCA balance.

Avista requests that its Application be processed by Modified Procedure, i.e., by written submission rather than by hearing. Reference Commission Rules of Procedure, IDAPA 31.01.01.201-204.

Commission Decision

Staff recommends that the Commission process the Company's Application pursuant to Modified Procedure. Does the Commission agree?

Scott Woodbury

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