

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE SUBMISSION OF
THE POWER COST ADJUSTMENT (PCA)
STATUS REPORT OF AVISTA CORPORATION
AND REQUEST FOR RECOVERY OF POWER
COSTS DEFERRED THROUGH JUNE 30, 2004.**

CASE NO. AVU-E-04-3**ORDER NO. 29605**

On August 12, 2004, Avista Corporation dba Avista Utilities (Avista; Company) filed a Power Cost Adjustment (PCA) status report with the Idaho Public Utilities Commission (Commission) and requested authorized recovery of power costs deferred through June 30, 2004. The existing PCA surcharge of 19.4% is currently scheduled to expire October 11, 2004. Avista has requested in its pending general rate case, Case No. AVU-E-04-1, that the existing PCA surcharge be reduced at the time that new base tariff rates are made effective at the conclusion of the general rate case.

The present 19.4% surcharge was originally authorized by the Commission in Order No. 28876 on October 11, 2001, in Case No. AVU-E-01-11. The surcharge was extended by Order No. 29130 in Case No. AVU-E-02-6 and by Order No. 29377 in Case No. AVU-E-03-6. Pursuant to Commission Order No. 29377, Avista was directed to file a PCA status report 60 days prior to expiration of the authorized surcharge. Avista's filing in Case No. AVU-E-04-3 is the Company's PCA status report and is accompanied by testimony and associated workpapers.

The status report reflects a PCA deferral balance of \$26.1 million at June 30, 2004, as reflected below:

| | |
|---|--------------------|
| Unrecovered balance at June 30, 2003 | \$27,843,108 |
| Net deferral activity (July 2003-June 2004) | 26,890,298 * |
| Amortizations related to surcharge revenues (July 2003-June 2004) | <u>-28,627,479</u> |
| Unrecovered balance at June 30, 2004 | 26,105,927 |
| *Deferral Activity Detail | |
| Net increase in power supply costs | \$28,664,583 |
| Centralia capital and O&M credit | -2,817,996 |
| Interest | <u>1,043,711</u> |
| Net deferral activity (July 2003-June 2004) | \$26,890,298 |

Monthly reports have been filed with the Commission by the Company regarding actual PCA deferral entries to date. As reflected in the Company's filing, PCA surcharge rates will not change as a result of this filing. The level of PCA surcharge that will be approved on an ongoing basis is being addressed in the Company's general rate case filing, Case No. AVU-E-04-1. In that case the Company is requesting that the existing PCA surcharge be reduced at the time that new base tariff rates are made effective, i.e., at the conclusion of the general rate case.

The Company in its status report filing discusses the financial implication of the unrecovered PCA deferral balance and recounts the available customer bill paying assistance options.

On August 19, 2004, the Commission issued a Notice of Filing and Comment Deadline in Case No. AVU-E-04-3. The Commission acknowledged that the Company's filing was a PCA status report only and that no changes in rates will result from the filing. The deadline for filing comments was September 3, 2004. The Commission Staff was the only party to file comments.

Staff performed a review and audit of amounts that went into the PCA deferral balance in the current filing period. Staff's review covered expenses incurred for the period July 2003 through June 2004. Staff looked at a representative cross section of transactions included in the Purchase Power Account (FERC 555), Thermal Fuel Account (FERC 501), CT Fuel Account (FERC 547) and the Power Sales Account (FERC 447). Based on its review of these sales transactions, Staff concludes that the transactions appear reasonable at the time they were entered. Staff finds the amounts recorded to be correct and recommends that they be included in the deferral balance as of June 30, 2004.

Staff provides the following analysis regarding the Company's deferral balance components: The Company is requesting Commission approval for recovery of the Unrecovered Deferral Balance of \$26,105,927 as of June 30, 2004. The Unrecovered Deferral Balance at June 30, 2004 is calculated by starting with the Unrecovered balance at June 30, 2003, adding in the net deferral activity for the current period of July 1, 2003 through June 30, 2004, and subtracting the amortizations related to surcharge revenues.

| | |
|---|---------------------|
| • Unrecovered Balance at June 30, 2003 | \$27,843,108 |
| • Net Deferral Activity (July 2003 – June 2004) | 26,890,298 |
| • Amortizations Related to Surcharge Revenues (July 2003 – June 2004) | <u>(28,627,479)</u> |
| • Unrecovered Balance at June 30, 2003 | \$26,105,927 |

The net deferral activity consists of several pieces. The Company's Application lists the deferral activity detail that goes into the Net Deferral Activity (July 2003 – June 2004) in the amount of \$26,890,298. The net deferral activity is comprised of the follow items and amounts:

| | |
|--|---------------|
| • Net Increase in Power Supply Cost | \$28,664,583 |
| • Centralia Capital and O&M Credit (Order No. 28876) | (\$2,817,996) |
| • Interest | \$1,043,711 |

The Centralia Capital and O&M Credit reflects the Centralia capital costs such as return on investment and Centralia O&M expense. Since base rates were set, the Centralia power plant has been sold. The Centralia credit is designed to offset the Centralia revenue requirement that is still part of base rates. The Centralia credit is not subject to 90/10 sharing.

The largest component of the net deferral activity is the Net Increase in Power Supply Cost. Because power plants are economically dispatched, the PCA accounts also reflect additional power purchases when market prices are lower than generation costs. The reduced generation costs are also captured. The total net increase in power supply cost, \$28,664,583, is comprised of the following items:

| | |
|--|---------------------|
| 1. FERC Account 555 - Purchased Power | \$1,308,469 |
| 2. FERC Account 501 - Thermal Fuel | (\$5,459,707) |
| 3. FERC Account 547 - CT Fuel | \$4,800,403 |
| 4. FERC Account 447 - Sales for Resale | \$21,380,467 |
| 5. All Potlatch Revenues and Expenses | \$3,536,932 |
| 6. Net Fuel Expense – Loss on Natural Gas Resold | \$4,066,392 |
| 7. Idaho Retail Revenue Adjustment | (\$1,321,161) |
| 8. Wood Power Inc. Amortized Expense | <u>\$352,788</u> |
| Total | <u>\$28,664,583</u> |

1. Purchased Power represents the difference in costs the Company incurred for power purchases when compared to base rates. The positive amount represents a cost to ratepayers – the Company bought more power in the market than is currently built into base rates. This is in part, due to the fact that the authorized case is based on the

contracts and resources for the period July 1999 through June 2000, and will be updated as a result of the current rate case being concluded and new base rates being set.

2. Thermal Fuel is the amount spent for fuel, primarily coal, used to produce electricity. This item is the difference in costs the Company incurred for thermal fuel when compared to base rates. The negative amount represents a benefit to ratepayers – the Company bought less coal than is currently built into base rates. Thermal fuel expense for the Colstrip and the Kettle Falls plants were lower than the authorized amounts.
3. CT Fuel is the cost of natural gas burned in the Company's combustion turbines. This amount represents the difference in costs the Company incurred for CT fuel when compared to base rates. Since the last general rate case in 1998, the Company has added combustion turbines as another means of producing electricity. The amount currently built into rates does not reflect the addition of these plants, and therefore, does not take into account the natural gas needed to fuel these plants. The positive amount is a cost to ratepayers.
4. Sales for Resale represents revenues the Company is able to generate through long-term and short-term off-system sales. These revenues reduce the revenue requirement for ratepayers. The positive amount represents a decrease in off-system sales. This amount represents an increased cost to customers over what is currently built into rates.
5. The Potlatch component is a direct assignment to Idaho of Potlatch costs and revenues (Lewiston facility).
6. Net Fuel Expense results when natural gas purchased for the CT plants is sold when it is less expensive to sell the gas and purchase electricity than it is to generate power with the gas. The loss on the sale of the gas is included in the PCA. Of the \$4 million (Schedule p3, ln 6) in net fuel expense deferred in the current PCA filing (July 30, 2003 through June 30, 2004), \$3,584,648 is associated with the fixed-price gas contracts known as Deal A and Deal B. The costs associated with Deal A and Deal B are discussed later in this Order and will be settled with the conclusion of the current general rate case.
7. The Idaho Retail Revenue Adjustment is an adjustment for changes in load. If the load grows, revenue is added, if the load declines, there is an adjustment to reflect the decreased load. A revenue credit of retail load is computed using a variable cost of power supply of 21.23 mills/kWh multiplied by the growth in load.
8. Wood Power operated a PURPA qualified wood waste powered generation facility at Plummer, Idaho. Washington Water Power, Avista's predecessor, entered into a power sales agreement with Wood Power on August 19, 1982 to purchase the energy and capacity from that facility. On September 30, 1996, Washington Water Power entered into an agreement with Wood Power and Rayonier terminating the 1982 power sales agreement. In Order No. 26751, Case No. WWP-E-96-8, the Company received authorization for rate making and accounting treatment of the buy-out of the Wood Power, Inc. contract. The Commission found that the deferral and amortization of the

buy-out over eight years was reasonable. This amount is the current year's amortization of the buy-out of that contract.

As was the case in the last Avista filing (AVU-E-03-6), a significant portion of the net increase in Power Supply Costs is due to the expiration of long-term power sales contracts. The expiration of profitable contracts reduced Sales for Resale revenue dramatically. In the PCA, Sales for Resale revenue is an offset to Power Supply Costs. The loss of revenue from expired contracts is partially offset by reductions in fuel costs and Purchased Power costs.

Net Fuel Expense – Deal A and Deal B

Avista Utilities has an obligation to provide electrical service to its customers. To satisfy this obligation, the Company both generates and buys electricity. Some of the utility's generating resources are fueled by natural gas. When gas prices are low enough that electricity can be generated at a cost below the cost of buying electricity on the market, the Company buys gas and uses it to produce electricity.

In the last two PCA cases, AVU-E-02-6 and AVU-E-03-6, Staff questioned the circumstances surrounding acquisition and later sale of natural gas purchased by the Company. Specific fixed purchases are referred to as Deal A and Deal B.

In Case No. AVU-E-02-6, Staff proposed that the Commission withhold judgment on \$578,748 at 90% of the Idaho Jurisdictional level in net fuel expense incurred in June of 2002 to serve Coyote Springs until a more complete evaluation was conducted regarding anticipated online dates, reasons for the operational delay and timing of the sale of gas acquired for use at the plant. Pending further investigation, the Commission in its Order removed the \$578,748. The Commission allowed recovery of the losses associated with Deal A in the amount of \$18,876,448 at the system level and \$5,636,885 at 90% of the Idaho Jurisdictional level.

In Case No. AVU-E-03-6, Staff proposed that the Commission allow recovery of Deal A but not recovery of Deal B. The Commission decided to withhold their decision on the recovery of both Deal A and Deal B until the completion of the current rate case, Case No. AVU-E-04-1. In Case No. AVU-E-03-6, the losses deferred for recovery associated with Deal A were \$19,877,934 at the system level, and \$5,935,949 at 90% of the Idaho Jurisdictional level. The losses deferred for recovery associated with Deal B were \$19,587,100 at the system level, and \$5,849,100 at 90% of the Idaho Jurisdictional level. The amounts for Deal B include what had previously been set aside for further investigation in the AVU-E-02-6 case.

In this current PCA status report filing, the losses deferred for recovery associated with Deal A are \$9,835,506 at a system level and \$2,937,079 at 90% of the Idaho Jurisdictional level. The losses deferred for recovery associated with Deal B are \$2,168,541 at the system level and \$647,570 at 90% of the Idaho Jurisdictional level.

The total losses included in the total deferral balance pending approval for recovery for Deal A are \$29,713,440 at the system level and \$8,873,027 at 90% of the Idaho Jurisdictional level; the total losses included in the total deferral balance pending approval for recovery of Deal B are \$21,755,641 at the system level and \$6,496,669 at 90% of the Idaho Jurisdictional level.

Staff proposed in comments, that the Commission accept the deferral balances as reflected in the Company's filing. Staff recommends that the PCA surcharge authorized in the final Order of the Company's current rate case, AVU-E-04-1, continue until the Company's next PCA filing. Staff also recommends the remaining PCA deferral balance on June 20, 2005, be subject to review by the Commission prior to establishing a surcharge for an additional period of time.

COMMISSION FINDINGS

The Commission has reviewed the filings of record in Case No. AVU-E-04-3, including the comments and recommendations of the Commission Staff. The Commission also takes notice of the Deal A and Deal B adjustment/recovery issues being separately decided in Avista general rate case AVU-E-04-1. The Commission finds it reasonable to enter our Order in this case without further procedure. The Commission accepts the deferral balances as reflected in the Company's filing subject to the Deal A and Deal B adjustments (including an adjustment to accrued interest) to be made in the Company's electric general rate case, AVU-E-04-1. The actual remaining PCA deferral balance as of June 30, 2005, will be subject to review by this Commission prior to establishing a surcharge for any additional period of time. Reference Order No. 28876, Case No. AVU-E-01-11.

CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction over Avista Corporation dba Avista Utilities and the issues raised in Case No. AVU-E-04-3 pursuant to the authority granted the Commission in Idaho Code, Title 61 and pursuant to the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

ORDER

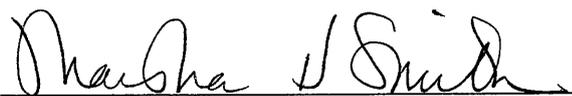
In consideration of the foregoing and as more particularly described above, IT IS HEREBY ORDERED and the Commission does hereby accept the PCA deferral balances as reflected in the Company's filing, subject to the adjustment and recovery method authorized in Avista electric General Rate Case AVU-E-04-1. The Commission approves subject to adjustment in Case No. AVU-E-04-1, an unrecovered Idaho PCA deferral balance as of June 30, 2004 of \$26,105,927.

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.*

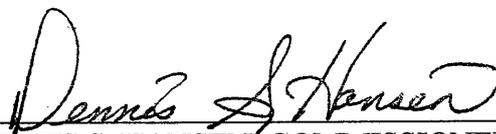
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 8th day of October 2004.



PAUL KJELLANDER, PRESIDENT

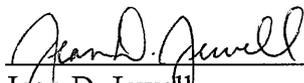


MARSHA H. SMITH, COMMISSIONER



DENNIS S. HANSEN, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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