

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL**

FROM: WELDON STUTZMAN

DATE: SEPTEMBER 27, 2005

**SUBJECT: CASE NO. AVU-E-05-6; APPLICATION OF AVISTA CORPORATION
FOR RECOVERY OF DEFERRED POWER COSTS THROUGH ITS
EXISTING PCA SURCHARGE**

On August 11, 2005, Avista Corporation filed an Application for an Order approving recovery of power costs deferred through June 30, 2005. Avista requested approval of a 12-month extension of the existing PCA surcharge that allows the Company to recover above normal costs of supplying power to its customers. The Commission approved a 19.4% PCA surcharge in October 2001 to enable the Company to pay down a \$78 million power cost debt incurred during the 2000-2001 western states energy crisis. The surcharge was reduced to 4.38% last year, and in April of this year, was reduced to its current level of 2.45%. Avista's deferred power cost balance was \$26.1 million as of June 30, 2004, but was reduced to \$5.9 million as of June 30, 2005. The existing PCA surcharge produces annual revenues of approximately \$4,268,000, which is less than the remaining deferral balance.

On September 1, 2005, the Commission issued a Notice of Modified Procedure and Notice of Application to process Avista's Application. The Notice established a 21-day period for interested parties to file written comments. Written comments were filed by the Commission Staff, and three members of the public. One public comment demonstrates perhaps a misunderstanding of the filing, and one generally objects to any rate increase for Avista. The third argues against recovery of the excessive power costs during 2009-01 from customers, and recommends shareholders or previous Company officials pay the costs.

Staff reviewed the amounts that comprise the deferral balance and determined that the balances are appropriate, including the Company's calculation of interest on the deferral balance. Staff recommended the Commission accept them as filed by the Company. Staff also

recommended that the current PCA surcharge remain in place through June 30, 2006, as proposed by the Company. The Company proposed to file a status report on or before August 15, 2006, covering the period from July 1, 2005 through June 30, 2006. The Commission can review the Company's filing again next year and determine whether a change in the PCA level is appropriate at that time.

Staff recommends the Commission approve the Application of Avista Corporation for an Order to continue the current PCA surcharge of 2.448%, and direct that the Company file a status report on or before August 15, 2006.

COMMISSION DECISION

Should the Application of Avista Corporation for an Order authorizing recovery of deferred power costs through its current PCA surcharge through June 30, 2006 be approved, along with a directive for the Company to file a report on or before August 15, 2006?



Weldon B. Stutzman

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