DECISION MEMORANDUM

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

FROM: SCOTT WOODBURY

DATE: OCTOBER 12, 2006

SUBJECT: CASE NO. AVU-E-06-5 (Avista)
REQUEST FOR CONTINUATION OF EXISTING 2.448% PCA SURCHARGE

On August 15, 2006, Avista Corporation dba Avista Utilities (Avista; Company) filed an Application with the Idaho Public Utilities Commission (Commission) for an Order approving continuation of the existing 2.448% PCA surcharge and authorizing recovery of power costs deferred through June 30, 2006. Avista's Application serves as a PCA Status Report for the 12 months ended June 30, 2006 and complies with the Commission's direction in Avista PCA Order No. 29881, Case No. AVU-E-05-6.

The Company in its filing identifies the power cost deferrals during the July 1, 2005 through June 30, 2006 review period, and explains the primary factors causing the PCA deferrals. The unrecovered deferral balance at June 30, 2005 was $5,935,324. The unrecovered balance at June 30, 2006 is $1,517,103. While the annual amount of revenue under the existing surcharge (approximately $4.3 million) is greater than the unrecovered surcharge balance at June 30, 2006, the Company contends the unrecovered surcharge balance is expected to grow. Richard Storro, Director of Avista Power Supply, in testimony filed with the Application explains the reasons that actual power costs are expected to exceed authorized power costs and what the effect is forecasted to be on the deferral balance. At July 31, 2006, the deferral balance had grown to $3.2 million. In all likelihood, the Company estimates that the deferral balance by the end of August 2006 will be higher than the annual surcharge revenue level of $4.3 million. With the existing surcharge remaining in place, the deferral balance is expected to approximate

$8.7 million at the end of the year. However, should conditions turn out to be more favorable than expected, resulting in the deferral balance reaching zero at some point, Avista will make a filing to either zero-out the surcharge rates, or to continue or modify the rates depending upon actual and expected power supply conditions at the time. Should the surcharge rates not be modified prior to filing the next PCA Status Report covering the July 2006 through June 2007 12-month period, the surcharge rates will be reviewed as a part of that filing.

On August 30, 2006, the Commission issued Notices of Application and Modified Procedure in Case No. AVU-E-06-5. The deadline for filing written comments or protests was September 29, 2006. Commission Staff was the only party to file comments. Staff proposes that the Commission accept the audited deferral balances presented in the Company's filing. Staff recommends that the PCA surcharge, currently 2.448%, and the associated customer class rates, be continued. Staff also recommends that the Commission establish one or more workshops to develop future PCA filing criteria and the transition to equal cents per kWh PCA rates for presentation to the Commission prior to the next annual filing. Finally, Staff recommends that the Company's next status report be filed on or before August 15, 2007 to address a review period no longer than one year beginning July 1, 2006, to apply a new PCA methodology if available and implement new PCA rates if necessary. Staff's comments can be summarized as follows:

PCA Deferral Balance – June 30, 2006

Staff in its comments notes that it performed a review and audit of the amounts that went into the deferral balance in the current filing. Staff notes that the Company is requesting Commission approval for recovery of the unrecovered deferral balance of $1,517,103 as of June 30, 2006 and calculated as follows:

• Unrecovered Balance at June 30, 2005	$5,935,324
• Net Deferral Activity (July 2005 - June 2006)	-98,317
• Amortizations Related to Surcharge Revenues (July 2005 - June 2006)	-4,599,432
• Interest	279,528
• Unrecovered Balance at June 30, 2006	$1,517,103

The net deferral activity represents the Idaho jurisdictional share of the excess power costs and associated revenue adjustments deferred under the PCA mechanism by Avista for the 12 months ended June 30, 2006.

Deferral Balance Projection

In its filing Avista projects the PCA deferral balance for July through December 2006. The projection shows an additional accumulation of approximately $7.6 million. Based on this projection the Company recommends that PCA rates not be reduced to recover only the June 30, 2006 deferral balance of approximately $1.5 million, but that rates remain at current levels, rates that are expected to generate approximately $4.3 million in PCA revenue during the coming year. [Although not reflected in Staff comments, the Commission is apprised that the unaudited PCA deferral balance booked by Avista for the three months of July through September 2006 is $7,100,927.]

While the Company has not proposed to use the projection of deferral balances through December 2006 to set the PCA surcharge amount, neither has it proposed to establish the surcharge amount based on existing deferral balances at the time of the PCA filing. Staff notes that the Company's proposal to continue the existing 2.448% PCA surcharge seems to be more generally based on the expectation of higher deferral balances and the principle of rate stability. Staff points out that the Avista PCA methodology approved by the Commission does not include recovery of projected costs or costs deferred after the PCA filing. It is designed to recover costs after they are deferred, requested for recovery and fully audited.

Staff does not oppose the Company's proposal in this case to continue the existing surcharge. In assessing the reasonableness of the Company's proposal, Staff used the unaudited July ($2,032,949) and August ($3,606,778) PCA deferrals as known and measurable, subject to audit and correction in the Company's next PCA filing. Continuation of the existing surcharge, Staff states, will assure smaller deferral balances and interest charges for recovery later. Keeping the PCA rate at the present level will also offer rate stability to customers. It further assures that the deferral balance will not increase to the level it might otherwise attain if the PCA rate is lowered to only collect the deferral balance as of June 30, 2006.

PCA Methodology

Staff notes in its comments that Avista's current PCA filing is made under temporary criteria established by the Commission in 2001 when regional power supply costs, and PCA deferral balances reached unprecedented levels. At that time an annual PCA cap amount of $12 million was established along with an annual PCA review and potential rate adjustment.

The PCA filing methodology that was in place prior to the Commission's 2001 Order called for the Company to make PCA filings when the deferral balance reached a trigger amount of $3 million. Avista's PCA also included a rate cap of no more than two triggers being incorporated in rates at any one time. The $3 million trigger was established at approximately 2.5% of Idaho jurisdictional revenue. The Company views this as the more permanent methodology approved by the Commission and plans to return to it once the deferral balance reaches zero. Also, when that balance reaches zero the Company is required to implement a new rate design. Rate design is to be changed from an equal percentage increase or decrease for each customer class to an equal cents per kWh increase or decrease for each customer class.

In this filing the deferral balance at June 30, 2006 is approximately $1.5 million which is relatively close to zero. Staff's concern is that even with the continuation of the current PCA rates, designed to recover $4.3 million annually, the PCA deferral balance is expected to grow through the end of the year. Staff believes that these circumstances leave several unanswered questions.

1. When will the deferral balance reach zero?

2. Should the Commission wait until the balance reaches zero to return to trigger and cap PCA filings and/or implement equal cents per kWh rates?

3. Should the Company return to trigger and cap PCA filings or should a single annual filing be made that would drive a single annual rate change? This is the methodology used in recent years.

4. If Avista's PCA returns to trigger and cap filings, what should the trigger and cap be?

In this case Staff recommends that existing PCA rates be continued as proposed by the Company. However, Staff believes that the Commission should set one or more workshops to discuss these and any other PCA questions or concerns that interested participants might have. It is Staff's hope that participants could reach an agreement to be presented to the Commission regarding permanent future PCA methodology.

Financial Assistance for Paying Heating Bills

Although Avista's rates for residential customers may remain the same this year, many customers, Staff notes, still struggle to make ends meet. Staff encourages those customers who qualify for energy assistance to apply for the federally-funded Low Income Home Energy

Assistance Program (LIHEAP) and other non-profit fuel funds such as Project Share. For more information regarding assistance programs, Staff reports that customers may call the local Community Action Partnership agency (CAPAI), Avista Utilities, the Idaho Public Utilities Commission, or for other community resources call the 2-1-1 Idaho Care Line.

COMMISSION DECISION

Avista filed an Application recommending continuation of the existing 2.448% PCA surcharge and authorizing recovery of power costs deferred through June 30, 2006. The unrecovered balance at June 30, 2006 was $1,517,103. The annual amount of revenue under the existing surcharge is approximately $4.3 million. Based on reports filed with the Commission, the unaudited accrued PCA balance for July through September 2006 is $7,100,927. Does the Commission find it reasonable to approve the continuation of the existing surcharge? Does the Commission find it reasonable for the Company and Staff to hold workshops to discuss the reasonableness of returning to the prior PCA methodology?

Scott Woodbury

bls/M:AVU-E-06-05_sw2