

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE SUBMISSION OF)
THE SCHEDULE 66 PCA STATUS REPORT) CASE NO. AVU-E-03-6
OF AVISTA CORPORATION AND)
APPLICATION FOR CONTINUATION OF A) NOTICE OF APPLICATION
SCHEDULE 66 POWER COST)
ADJUSTMENT (PCA) SURCHARGE) NOTICE OF
) MODIFIED PROCEDURE
)
) NOTICE OF
) COMMENT/PROTEST
) DEADLINE
)
) NOTICE OF PCA/ENERGY
) DISCUSSION**

YOU ARE HEREBY NOTIFIED that on August 11, 2003, Avista Corporation dba Avista Utilities (Avista; Company) filed a Power Cost Adjustment (PCA) Schedule 66 Status Report with the Idaho Public Utilities Commission (Commission) and an Application requesting approved recovery of excess power costs deferred through June 30, 2003 and further continuation of a 19.4% (\$23.6 million) PCA surcharge currently scheduled to expire on October 11, 2003. Following a public hearing, the 19.4% surcharge was originally authorized by the Commission in Order No. 28876 dated October 11, 2001 in Case No. AVU-E-01-11. A 12-month continuation of the surcharge was authorized following a public workshop and comments in Order No. 29130 in Case No. AVU-E-02-6. In its Order continuing the surcharge, the Commission stated:

As we did last year, we find it reasonable to continue a close monitoring of the Company's PCA decisions and thus require the Company to file a PCA status report 60 days prior to the expiration of the PCA surcharge. As before, if the 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 term.

Order No. 29130, p. 16. The current status of the unrecovered Idaho PCA deferral balance as of June 30, 2003 is \$27,843,108 for its Idaho jurisdiction.

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Status Report – Application for Extension

The details of the deferred cost balance as reflected in the Company's PCA account are as follows:

Unrecovered Balance at June 30, 2002	\$45,600,228
Net Deferral Activity (July 2002 – June 2003)	6,789,503*
Amortizations Related to Surcharge Revenues (July 2002 – June 2003)	(24,546,623)
Unrecovered Balance at June 30, 2003	\$27,843,108

*Deferral Activity Detail

Net Increase in Power Supply Cost	\$23,383,629
Centralia Capital and O&M Credit	(2,817,996)
PGE Monitization Accelerated Amortization	(13,855,680)
Transfer Small Generation Capital Costs & Interest	(921,184)
Intervenor Funding Payment	1,138
Interest	999,596
Net Deferral Activity (July 2002 – June 2003)	\$ 6,789,503

During the review period, Avista reports that Idaho's share of power supply expenses exceeded the authorized level by \$25,924,662. The Company states that power supply expenses were higher than the authorized level due to several factors:

The largest factor was the sale of fixed price gas. Based on the average purchase and sale price, the fixed price gas purchases added approximately \$13.1 million to Idaho's share of power supply expense. Hydro-generation was approximately 12.9 aMW below the authorized level, which would account for approximately \$2.1 million of increased expense. Colstrip and Kettle Falls together generated approximately 8 aMW above the authorized. Rathdrum generated approximately 21 aMW below the authorized level due in part to the relatively low price of electricity compared to natural gas costs. The Company's other gas-fired generating plants, North East Turbine, Boulder Park, and the Kettle Falls Combustion Turbine generated 2 aMW during the period.

Other power supply expenses during the review period include a payment to terminate a long-term power purchase with Enron and the final lease payments of \$3.7 million (\$1.3 million Idaho share) related to the Kettle Falls Bi-Fuel generating units. The \$2.9 million Enron buy-out payment (\$960,000 Idaho share) occurred in October 2002, and was recorded as a power purchase expense. The Kettle Falls Bi-Fuel lease payments began in

September 2001 and were included in the prior filing for the review period ending June 2002.

Another factor driving the deferrals is the age of the authorized case. The authorized case is based on loads, contracts and resources in place for the period July 1999 through June 2000. During that period, the Company had several large off-system power sales that generated significant revenue. Almost all of the sales have ended and, as such, the revenue is reduced which is reflected in a reduction in Account 447, Sale for Resale, revenue of \$72 million on a system basis (\$24 million Idaho share). Purchased power expense has also decreased from the authorized level due in part to several long-term contracts ending. Purchased power expense, however, has decreased by only \$24 million on a system basis (\$8 million Idaho share). The Company plans to file a general rate case within the next year to reset the authorized level of power supply revenues and expenses.

Avista contends that continuation of the current surcharge is not only justified by the current level of unrecovered power cost deferrals, but is essential to the continued improvement in the financial health of the Company. Investor concerns surrounding cash flows, deferral balances, and the ability to recover costs in a timely manner have had an impact on the Company's financings. The Company's credit ratings were lowered by credit rating agencies to below investment grade in October 2001. Because of Avista's present credit ratings, debt is more expensive. Avista contends that it is imperative for both the Company and its customers that Avista continue to improve its financial condition so that investment grade credit ratings can be restored and so that longer-term debt can be refinanced on more reasonable terms.

Current projections indicated that with continuation of the 19.4% surcharge, the PCA deferral balance would reach zero in mid-2005. The actual point when the deferral balance reaches zero is dependent upon factors such as hydroelectric conditions, wholesale market prices, contract changes, etc., during the relevant period.

The Company requests that the Commission continue the PCA surcharge for an additional 12 months, beginning October 12, 2003 and continuing through October 11, 2004. The Company requests that its Application be processed pursuant to Modified Procedure, i.e., by written submission rather than by hearing.

YOU ARE FURTHER NOTIFIED that the Commission has reviewed the filings of record in Case No. AVU-E-03-6. The Commission has preliminarily determined that the public interest regarding the Company's Application requesting a 12-month continuation of 19.4% (\$23.6 million) Schedule 66 PCA surcharge may not require a hearing to consider the issues presented, and the issues raised by the Application may be processed under **Modified Procedure**, i.e., by written submission rather than by hearing. Reference Commission Rules of Procedure, IDAPA 31.01.01.201-204.

Notice of PCA/Energy Discussion

YOU ARE FURTHER NOTIFIED that Commission Staff will be available to discuss Avista's PCA filing and the Company's energy situation (gas and electric) as it affects Avista customers following the public workshop already scheduled in Avista's PGA Case No. AVU-G-03-1. The workshops in Avista's natural gas PGA filing are scheduled as follows:

Monday, September 8, 2003, Lewiston, Idaho, at the Nez Perce County Commission Brammer Building, 1225 Idaho Street beginning at 7:00 p.m. PDT.

Tuesday, September 9, 2003, Coeur d'Alene, Idaho, at the Student Union Building of North Idaho College, 1000 W. Garden Avenue beginning at 7:00 p.m. PDT.

YOU ARE FURTHER NOTIFIED that the Commission may not hold a hearing in this proceeding unless it receives written protests or comments opposing the use of Modified Procedure and stating why Modified Procedure should not be used. Reference IDAPA 31.01.01.203.

YOU ARE FURTHER NOTIFIED that **the deadline for filing written comments or protests** with respect to the Application and the Commission's use of Modified Procedure in Case No. AVU-E-03-6 is **Tuesday, September 30, 2003**. Persons desiring a hearing must specifically request a hearing in their written protests or comments.

YOU ARE FURTHER NOTIFIED that if no written comments or protests are received within the deadline, the Commission will consider the matter on its merits and enter its Order without a formal hearing. If comments or protests are filed within the deadline, the Commission will consider them and in its discretion may set the matter for hearing or may

decide the matter and issue its Order based on the written positions before it. Reference IDAPA 31.01.01.204.

YOU ARE FURTHER NOTIFIED that written comments concerning Case No. AVU-E-03-6 should be mailed to the Commission and to Avista at the addresses reflected below.

Commission Secretary
Idaho Public Utilities Commission
PO Box 83720
Boise, ID 83720-0074

Street Address for Express Mail:

472 W. Washington Street
Boise, ID 83702-5983

Kelly O. Norwood
Vice President
Avista Corporation
1411 E. Mission Avenue
Spokane, WA 99220
E-Mail: kelly.norwood@avistacorp

David J. Meyer
Senior Vice President and General Counsel
Avista Corporation
1411 E. Mission Avenue
Spokane, WA 99220
E-mail: dmeyer@avistacorp

These comments should contain the case caption and case number shown on the first page of this document.

Persons desiring to submit comments via e-mail may do so by accessing the Commission's home page located at www.puc.state.id.us. Click the "Comments and Questions" icon, and complete the comment form, using the case number as it appears on the front of this document. These comments must also be sent to the Avista at the e-mail addresses listed above.

YOU ARE FURTHER NOTIFIED that if no written comments or protests are received within the time limit set, the Commission will consider this matter on its merits and enter its Order without a formal hearing. If written comments are received within the time limit set, the Commission will consider them and, in its discretion, may set the same for formal hearing.

YOU ARE FURTHER NOTIFIED that the Application in Case No. AVU-E-03-6 can be reviewed at the Idaho Public Utilities Commission, 472 W. Washington Street, Boise, Idaho and at the Idaho offices of Avista. In addition, the Application may be viewed by accessing the Commission's Website at www.puc.state.id.us under the "File Room" icon and selecting the appropriate topic heading.

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DATED at Boise, Idaho this 27th day of August 2003.



PAUL KJELLANDER, PRESIDENT

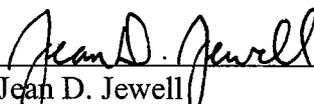


MARSHA H. SMITH, COMMISSIONER



DENNIS S. HANSEN, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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