

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF AVISTA CORPORATION DBA AVISTA)	CASE NO. AVU-E-01-11
UTILITIES—WASHINGTON WATER)	
POWER DIVISION (IDAHO) FOR)	NOTICE OF APPLICATION
AUTHORITY TO REVISE ELECTRIC)	
TARIFF SCHEDULE 66—TEMPORARY)	NOTICE OF INTERVENTION
POWER COST ADJUSTMENT—IDAHO)	DEADLINE
AND TO IMPLEMENT A RELATED)	
SURCHARGE.)	NOTICE OF SCHEDULING
)	
)	NOTICE OF HEARING
)	
)	ORDER NO. 28811

YOU ARE HEREBY NOTIFIED that on July 18, 2001, Avista Corporation dba Avista Utilities—Washington Water Power Division (Idaho) filed an Application for authority to implement an electric Schedule 66 Power Cost Adjustment (PCA) surcharge. The Company proposes a 14.7% surcharge for an effective date of September 15, 2001. The proposed surcharge will be in addition to an existing 4.8% surcharge which is scheduled to expire January 31, 2002. The Company is proposing that both surcharges remain in place until December 31, 2003. The incremental increase of 14.7% will result in a total surcharge in effect under Schedule 66 of 19.4% (\$23.6 million). To further reduce the deferred power cost balance, the Company is proposing to accelerate amortization of the credit balance related to the recent monetization of a Portland General Electric (PGE) sale agreement.

Avista in its Application states that a combination of low hydroelectric conditions and unprecedented high wholesale market prices have created the necessity for prompt rate relief in order to enable it to obtain financing necessary to support the ongoing operations of the Company. Hydroelectric conditions for 2001, the Company reports, have continued to deteriorate to the lowest level in the 73 years of record.

Avista states that it has not been able to obtain construction financing for its Coyote Springs II project because lenders are concerned about the size of the deferral balances and the

absence of rate relief necessary to deal with the deferred cost balances in a timely manner. The Company contends that if prompt relief is not granted, the Company will not be able to complete anticipated financings and will not be able to meet certain debt covenants by the end of this year. As a result, the Company would not be able to borrow under its line of credit. With the requested surcharge, and recovery of the deferral balances, under current plans, the Company states that it would be able to continue to access capital to meet its obligations.

The Company recognizes that the proposed total surcharge of 19.4% exceeds the 10% limit recently approved by the Commission in Case No. AVU-E-01-01. The Company notes that in that case, however, the Commission approved the Company's request to use the 10% of base revenues as a guide rather than a hard and fast rule. At page 13 of the Commission's Order No. 28775 dated July 12, 2001, approving modification to the PCA mechanism, the Commission states:

As agreed to by the Company and Staff, the limit, not the trigger, on surcharges or rebates will be raised to \$12 million or about 10% of base revenues. Rather than a hard and fast rule, the Company, if circumstances arise, may request and seek to justify a different amount.

The Company believes the record-low hydroelectric generation that has caused the Company to make purchases in the short-term wholesale market at unprecedented high prices and the resulting financial impact on the Company warrants the higher PCA surcharge being proposed at this time.

Avista states that it has filed its Application prior to completing its testimony in order to start the flow of information between the parties as soon as possible. The Company intends to file written testimony on August 2, 2001 that will provide additional details related to its request for rate relief.

The Company states that it is requesting expedited handling of its Application because of its urgent need for rate relief. Prompt relief, it states, is necessary to improve cash flow, but more importantly, to begin to deal with the large deferral balances so that the Company can continue to finance expenditures for energy included in the deferral balance for its construction expenditures and its day-to-day operations.

Recent Changes in Conditions and Deferred Cost Balances

Avista reports that its PCA deferral balance has risen substantially during the last two months (May and June). The actual balance of the deferral account for the Idaho jurisdiction at June 30, 2001 has increased to \$30 million. Current estimates, the Company contends, show a deferral balance for the Idaho jurisdiction of \$69 million at December 31, 2001, \$72 million at the end of 2002, and \$88 million at the end of 2003. Reference Application Attachment 1, p. 1.

A major portion of the increase in the deferral balance is driven by continued deterioration in hydroelectric generation. Under “critical water” conditions the annual reduction in generation is expected to be approximately 150 aMW. The generation for 2001 is currently estimated to be 194 aMW below the norm of 550 aMW. The record low hydroelectric conditions required it, the Company states, to purchase energy in the forward short-term wholesale market to replace the lost generation and cover its energy deficiencies. These purchases were made at unprecedented high wholesale market prices and caused deferral balances to increase substantially. The loss of a record 194 aMW of hydroelectric generation during 2001 has resulted in an estimated increase in gross cost to Avista of \$290 million on a system basis, at the wholesale market prices being experienced by the Company during the year. The combination of the hydroelectric impacts and the market purchases for 2001, the Company states, is approximately \$400 million on a system basis. This exceeds Avista’s annual gross retail electric revenues on a system basis of approximately \$360 million.

Furthermore, in the past month, wholesale prices, the Company states, have decreased dramatically, due in large part to FERC’s price mitigation order issued on June 19, 2001. The substantial decline in forward market prices in the last month has reduced the value of future surplus energy on Avista’s system that could be used to offset the increased power costs experienced by the Company in 2001.

The Company reports that it has taken a number of measures to mitigate the increased power costs, such as increased operation of its thermal resources, locking in fixed-price purchases in the prior year, aggressively pursuing conservation and low curtailment programs, and implementing a hiring freeze and cutting budgets. However, the Company states that the costs associated with the hydroelectric conditions and wholesale market prices (costs beyond the Company’s control) have overwhelmed the benefits these measures have provided.

Financial Implications

In addition to the cash required to support power cost deferrals, Avista states that it also has cash needs for funding gas deferrals, for normal construction and capital improvements, for the completion of construction of Coyote Springs II and a number of small generation projects, to fund conservation programs, and to repay maturing securities. Avista's Application includes a chart showing total electric and natural gas deferral balances for both the Washington and Idaho jurisdictions for each month of 2001. The chart shows total electric and natural gas deferral balances of \$319 million at December 31, 2001. Current estimates show that without a surcharge, utility financing needs will total \$434 million from now until the end of 2002, primarily to fund energy costs, required utility construction (including generation projects), and debt and preferred stock maturity. Investor concerns surrounding cash flows, deferral balances and the ability to recover costs in a timely manner, the Company states, have already had an impact on the Company's financing. The Company's Application details related consequences. The Company states that it will be unable to complete any financings absent substantial progress toward recovery of the deferral balances, including an immediate increase in rates. Banks have told Avista that they will not complete construction financing of Coyote Springs II based on the Company's current credit risk. The Company's plans to sell common stock this fall to provide a portion of external funds needed are also complicated by its deferral balances. Without relief, the Company states that its inability to borrow under its credit line will make it very difficult, if not impossible, to sell common stock at a reasonable price and in the time period that the Company had planned.

Avista notes that it currently has an investment grade rating (BBB with a negative outlook for its senior unsecured debt). The Company's financial indicators have been deteriorating and without additional equity financing and approved cash flows from operations, projected 2001 financial indicators as depicted in Application attachments are not adequate to maintain an investment grade (BBB) credit rating. Institutional investors such as the pension fund managers, the Company contends, are much less likely to purchase securities with ratings below investment grade. As a result, the Company contends that a drop below investment grade would have a significant impact on the Company and its customers by causing a substantial increase in borrowing costs to finance the business. Commission support and action through a surcharge, the Company

maintains, is critical to enable the Company to complete financings needed for continued utility operations and to help mitigate potential reductions in credit ratings.

Proposed Tariff Changes

The rates set forth in the Company's proposed PCA Schedule 66 reflect an annual revenue surcharge amount of \$23.6 million or 19.4%. As previously indicated, the present Schedule 66 includes a surcharge of \$5.7 million or approximately 4.8%, which is scheduled to expire January 31, 2002. The proposed incremental rate increase to customers is approximately 14.7%. In developing the surcharge of 14.7%, the Company states that it attempted to achieve a balance of mitigating the overall impact to customers, while also reducing the surcharge balance to zero as quickly as possible to address the concerns of the financial community. The Company is proposing to use the deferred credit on the Company's balance sheet related to the monetization of the Portland General Electric (PGE) sale agreement as an offset to the power cost deferral balance to reduce the overall rate impact to customers. The Company is then proposing that the remaining balance of the deferred costs be recovered by the end of 2003 through the surcharge.

With regard to the PGE monetization credit, the Company is currently amortizing the PGE monetization credit balance over a 16-year period (1999-2014) to match the original revenue stream under the PGE contract. The Company is proposing in this filing to accelerate the amortization of the PGE credit balance, beginning in October 2001, and apply the increased amortization against the deferred power cost balance, which would reduce the amount of deferred power costs that must be collected from customers through the surcharge. The Company is proposing that the amortization be increased to a level that would cause the PGE balance on Avista's balance sheet on October 1, 2001, to be fully amortized by December 31, 2002. This is one year earlier than the targeted date of December 31, 2003, to eliminate the power cost deferral balance. By using the PGE credits at a faster rate than the December 31, 2003 date, the overall surcharge to customers, the Company states, is decreased. The accelerated amortization of the PGE balance would not improve the Company's cash flow, since these entries would be non-cash accounting entries, but would mitigate the overall impact to customers from the power cost deferrals. The accelerated amortization of the PGE balance would reduce the deferred power cost balance by \$34.6 million by December 31, 2002.

After reducing power cost deferrals by the accelerated amortization of the PGE balance, the Company calculated the additional surcharge (14.7%) necessary to reduce the deferred power cost balance to zero by December 31, 2003. As part of the overall proposal, the present surcharge under Schedule 66 of 4.8%, which is incorporated in the proposed Schedule 66 rates, would not expire at the end of January 2002, but would continue through December 31, 2003.

December 2003 was chosen in an effort to balance a number of competing considerations including the size of the surcharge, the duration of recovery of the deferral balance, the need to immediately improve the financial help of the Company, as well as taking into consideration the timing of the need for additional power resources. A surcharge period shorter than December 2003, the Company states, would improve the financial health of the Company sooner, but would result in a significantly higher surcharge rate increase. A surcharge period beyond 2003 would extend into a period when the Company shows a need for new firm energy resources. The Company's existing 200 MW purchase from TransAlta expires in December 2003, and Avista will need additional firm energy resources beginning in 2004. The costs associated with these new resources, the Company states, may cause an increase in retail rates, therefore, the Company is proposing a surcharge period that ends prior to 2004.

The Company recognizes that a portion of the costs included in the 27-month recovery plan (through December 2003) are projected at this time, and proposes that the surcharge rates under Tariff Schedule 66 be adjusted in the future based on actual costs. The Company has included language under the proposed tariff addressing periodic review and adjustment of the rates by the Commission.

The Company proposes to recover the surcharge amount on a uniform percentage basis to all general service schedules. The annual revenue surcharge by service schedule is then applied only to the energy charge(s) within each schedule. The resulting increase for a residential Schedule 1 customer using 1,000 kWh per month would be 13.9%, or \$7.55 per month. The percentage increase for a customer using 600 kWh per month would be 12.9%, or \$4.16 per month. The increase for a customer using 1,400 kWh per month would be 14.4%, or \$10.94 per month.

As service Schedules 11, 21 and 25 contained only a single energy block, the application of the surcharge is more straightforward. For pumping service schedules 31 and 32, the Company proposes application of the surcharge on an equal cents per kWh basis to the energy block rates

under the schedule. The rates under the schedule are presently on a declining block basis, with an implied demand charge included in the first block rate. For street and area lighting Schedules 41 to 49, the proposed increase is being applied on a uniform percentage basis to the present rates under those schedules. The Company proposes an effective September 15, 2001 date for the change in rates.

YOU ARE FURTHER NOTIFIED that the Commission has reviewed the filings of record in Case No. AVU-E-01-11. The Commission notes that this is the Company’s first filing under its recently modified PCA methodology. The Commission finds it reasonable to proceed to hearing in this case. The Commission has suspended the proposed effective date, i.e., September 15, 2001, to allow for the reasonable and expeditious processing of the Company’s filing while comports with other demands on the Commission’s time and calendar. Reference Commission Order No. 28814.

YOU ARE FURTHER NOTIFIED that **persons desiring to intervene** in Case No. AVU-E-01-11 for the purpose of becoming a party, i.e., to present evidence, to acquire rights of cross-examination, to participate in settlement or negotiation conferences, and to make and argue motions **must file a Petition to Intervene** with the Commission pursuant to this Commission’s Rules of Procedure 72 and 73, IDAPA 31.01.01.072 and -.073. Persons desiring to intervene in Case No. AVU-E-01-11 must file a Petition to Intervene **on or prior to Wednesday, August 15, 2001.**

Persons desiring to present their views without parties’ rights of participation and cross-examination are not required to intervene and may present their comments without prior notification to the Commission or the parties.

Pursuant to Agreement of the Company and the Commission YOU ARE FURTHER NOTIFIED that the Commission has adopted the following scheduling for pre-file of direct testimony in Case No. AVU-E-01-11:

August 2, 2001	Pre-file deadline direct testimony—Avista Utilities
August 29, 2001	Pre-file deadline direct testimony—Staff and Intervenors
September 4, 2001	Pre-file deadline rebuttal testimony—Avista Utilities

The pre-file deadlines are in-hand dates. The prepared testimony and exhibits must conform to the requirements of Rules 266 and 267 of the Commission's Rules of Procedure. Reference IDAPA 31.01.01.266-267.

YOU ARE FURTHER NOTIFIED that discovery is available in Case No. AVU-E-01-11 pursuant to the Commission's Rules of Procedure, IDAPA 31.01.01.221-234.

YOU ARE FURTHER NOTIFIED that the Commission will conduct a **public hearing** in this matter on **WEDNESDAY, SEPTEMBER 12, 2001, COMMENCING AT 9:30 A.M., AT THE KOOTENAI COUNTY ADMINISTRATION BUILDING (ROOMS 1A & B), 451 GOVERNMENT WAY, COEUR D'ALENE, IDAHO,** and continuing if necessary the following day, September 13th at the same location.

YOU ARE FURTHER NOTIFIED that Avista's Application together with the filings of record in Case No. AVU-E-01-11 can be reviewed at the Commission's office in Boise, Idaho and at the Company's Idaho offices during regular business hours.

YOU ARE FURTHER NOTIFIED that all proceedings in this case will be held pursuant to the Commission's jurisdiction under Title 61 of the Idaho Code and that the Commission may enter any final Order consistent with its authority under Title 61.

YOU ARE FURTHER NOTIFIED that all proceedings in this matter will be conducted pursuant to the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

YOU ARE FURTHER NOTIFIED that all hearings and pre-hearing conferences in this matter will be held in facilities meeting the accessibility requirements of the Americans with Disabilities Act. In order to participate, understand testimony and argument at a public hearing, persons needing the help of a sign language interpreter or other assistance may ask the Commission to provide a sign language interpreter or other assistance as required under the Americans with Disabilities Act. The request for assistance must be received at least five (5) working days before the hearing by contacting the Commission Secretary at:

IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, ID 83720-0074
(208) 334-0338 (TELEPHONE)
(208) 334-3762 (FAX)

ORDER

In consideration of the foregoing and as more particularly described above, IT IS HEREBY ORDERED and the Commission does hereby adopt the procedure and scheduling set out above.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this _____ day of August 2001.

PAUL KJELLANDER, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

DENNIS S. HANSEN, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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