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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR AUTHORITY TO IMPLEMENT A RESIDENTIAL AND SMALL FARM ENERGY RATE ADJUSTMENT CREDIT _______________________________________	)))))	CASE NO. AVU-E-01-

I. INTRODUCTION

Avista Corporation doing business as Avista Utilities (hereinafter Avista or Company), at 1411 East Mission Avenue, Spokane, Washington, respectfully petitions the Commission for an order approving a residential and farm energy rate adjustment credit of 0.439¢per kilowatt-hour. The purpose of the energy rate adjustment credit is to pass through to qualifying electric residential and small farm customers the estimated benefits to be derived under the Residential Exchange Settlement Agreement between Avista and the Bonneville Power Administration (BPA) for the Contract Year October 1, 2001 through September 30, 2002.

Communications in reference to this Application should be addressed to:

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II. BPA RESIDENTIAL EXCHANGE SETTLEMENT CREDIT

In its Settlement Agreement with BPA, Avista received rights to 90 aMW of benefits from the federal hydropower system beginning October 1, 2001. The benefits related to this Settlement are to be shared among Avista's residential and small farm customers. Through this filing the Company is requesting that the Commission approve a residential and small farm energy rate adjustment credit to pass through the estimated benefits to be derived from the Settlement Agreement for the first Contract Year under the Agreement, October 1, 2001 through September 30, 2002. The proposed credit is 0.439¢per kilowatt-hour as reflected on Second Revision Schedule 59.

The Northwest Regional Power Act establishes a Residential Exchange Program to provide benefits to residential and small farm consumers of Pacific Northwest utilities. The Settlement Agreement between Avista and BPA settles the Parties' rights and obligations for the Residential Exchange Program for the ten-year term of the Agreement, October 1, 2001 through September 30, 2011. The Settlement Agreement is the result of extensive discussions and negotiations between and among a number of parties throughout the Pacific Northwest. Avista wishes to acknowledge and express appreciation for the substantial and beneficial role played by the Commission and Commission staff throughout this process to attain benefits from the federal power system for Avista's residential and small farm customers under the Settlement Agreement. Attachment 1 is a copy of the Settlement Agreement and accompanying exhibits. Attachment 2 is a copy of Amendment No. 1 to the Agreement. Amendment No. 1 reduces the amount of firm power in the first contract year only, and provides for a monetary payment from BPA to Avista for the firm power reduction amount.

III. EXPLANATION OF BENEFITS

The benefits from the Exchange Agreement consist of three components: a monetary benefit, a firm power sale benefit, and a firm power reduction benefit.

Monetary Benefit: Avista shall receive 42 aMW (29 aMW Washington, 13 aMW Idaho) of the 90 aMW of benefits in the form of a monetary benefit. The Monetary Benefit monthly payment amounts shall be determined by taking the difference between BPA's Forward Flat-Block Price Forecast ($38/MWh) and the RL Rate at 100 percent load factor ($19.71/MWh) times the annual amount of energy. The energy amount of the Monetary Benefit is fixed for the first five years of the contract, October 2001 through September 2006. BPA shall, no later than October 1, 2005, notify Avista of the amount of Monetary Benefit expressed in annual aMW, for which payments will be made to Avista during the period October 2006 through September 2011.

Firm Power Reduction Benefit: Avista agreed to reduce the amount of firm power to be provided by BPA by approximately 10% (5 aMW) as part of a regional effort to mitigate BPA's overall rate increase. This firm power reduction is effective for only the first contract year, October 1, 2001 through September 30, 2002. BPA will make cash payments to Avista related to the reduction as shown on lines 21-27 on page 1 of attachment 3.

Firm Power Sale Benefit: The Company has a number of options related to the firm power sale component. The Company may take delivery of the power, or elect to terminate the Firm Power Sale Agreement and convert it to the Monetary Benefit. If the Company chooses to retain the Firm Power Sale Agreement, it has additional options, including flexibility in scheduling the power. The Company is still discussing specific provisions of the Settlement Agreement with BPA related to the firm power component. Avista retains the right to terminate the Firm Power Sale Agreement up to 30 days after FERC grants interim approval for BPA's wholesale power rates that are effective October 1, 2001. As of this filing, FERC has not granted such interim approval. If Avista terminates the Firm Power Sale Agreement, BPA shall convert the Firm Power Sale to Monetary Benefits. The additional Monetary Benefit, due to the conversion, would be calculated as described above. <u>For the purpose of estimating the initial credit to customers for this filing</u>, the Company is assuming a benefit to customers equivalent to what the benefit would be if the Company were to elect to terminate the Firm Power Sale Agreement and convert the firm power component to Monetary Benefit. Page 1 of Attachment 3 shows the calculation of the resulting benefit. The total benefit amount from the Residential Exchange Settlement is shown on page 1 at line 28 and amounts to $4,516,824.

A final decision on whether or not to terminate the Firm Power Sale Agreement and convert to Monetary Benefit will be made at some point in the coming weeks prior to 30 days following interim approval of BPA's power rates by FERC. At such point in time, updated market price forecasts will be considered and any remaining details related to delivery of firm power will have been clarified. The estimated benefit to Avista's customers from these two options (retain the Firm Power Sale Agreement or terminate and convert to Monetary Benefit) is explained below. In either event, the actual benefits credited to customers in the first year will be different than the actual benefits received from BPA under the agreement due to differences in actual and estimated retail loads, and/or the market price of power and BPA's Residential Load Firm Power rate. Therefore, Avista is proposing a true up mechanism to true up the difference over time between the benefits credited to customers and the actual benefits received from BPA.

If Avista chooses to not terminate the Firm Power Sale Agreement, Avista has the right to have all or a portion of the power delivered or not delivered. If all or a portion of the power is not delivered during a month, the amount of power Avista chooses to not schedule is converted to a cash payment. The cash payment amount is calculated as the difference between the average firm Mid-C index price for the month and the BPA Residential Load Firm Power rate (RL Rate) less wheeling and losses multiplied by the monthly amount of power that Avista chooses to not schedule. The average Mid-C price for the month is based on heavy-load-hour (HLH) and light-load-hour (LLH) prices weighted by the amount of power that Avista chooses to not schedule. The monthly RL rate is calculated at 100 percent load factor for HLH and LLH periods and is adjusted by BPA's Cost Recovery Adjustment Clause (CRAC).

The CRAC has three components: "load-based" CRAC, "financial-based" CRAC, and "safety-net" CRAC. The firm power sale benefit is subject to all three components of the CRAC. (The Monetary Benefit is subject only to the safety-net component of the CRAC, which is estimated to not trigger during the first contract year.) BPA has calculated its CRAC amounts for the first six months of the first contract year, and will recalculate these amounts to be effective in April 2002. Should the CRAC change, the actual benefit amount will vary relative to the estimated amount.

If power deliveries are scheduled, the Company proposes to calculate the benefit to be passed on to customers as the difference between the average monthly Mid-C price and the monthly RL rate less wheeling and losses. The Mid-C HLH and LLH prices would be weighted by the amount of power delivered in HLH and LLH periods. The RL rate, adjusted by the CRAC, and wheeling and losses would be the actual amounts billed to Avista by BPA for the power deliveries. Page 2 of Attachment 3 shows the calculation of estimated benefits if Avista were to take delivery of the power related to the firm power sale component. The total estimated benefit is shown on page 2 at line 28 and amounts to $3,731,535. Page 3 of Attachment 3 shows pricing assumptions.

IV. ACCOUNTING, INTEREST, TRUE UP

Benefits derived, as a result of the Settlement Agreement, will be deferred to Account 254 – Other Regulatory Liabilities. A separate subaccount will be used to distinguish the residential exchange from other items that may be included in Account 254. The payment amounts to Avista will be directly credited to Account 254. The payment amounts include the monetary benefit, the firm power reduction benefit and the cash payment for power Avista chooses not to take as explained above. Charges for wheeling and losses will be debited to Account 254. The payment for power deliveries taken will be charged to Account 555 – Purchased Power Expense. The benefit for residential and small farm customers associated with the power deliveries taken will be the difference between the Mid-C price and the amount paid to BPA for the power, as more fully explained above. The benefit connected with power deliveries taken will be accounted for by debiting Account 557 – Other Power Supply Expense and crediting Account 254. The result being that the charges to Account 555 and Account 557 will reflect a purchase power expense amount equivalent to having purchased power at the average Mid-C price for the month. Charges to Account 555 and Account 557 will be included in the calculation of the deferral of power costs under the PCA mechanism.

Account 254 will be amortized by debiting Account 254 and crediting Account 407.4 – Regulatory Credits by an amount equal to the amount of revenue credit passed through to customers during the month.

Deferred federal income taxes will be recorded. Interest will be calculated on the balance of Account 254 in similar fashion to the calculation of interest on PCA balances. It is expected that the rate credit will be revised on an annual basis and may be revised more often, if necessary, depending on how close actual results compare to estimates. The balance in Account 254 will reflect the difference between actual benefits and the amount of credit passed on to residential and small farm customers. The balance in Account 254 will be part of the calculation of any revision to the rate credit.

V. ENERGY RATE ADJUSTMENT CREDIT

The Company proposes to pass through the estimated benefit amount on a uniform cents per kilowatt-hour basis to all qualifying customers served under Schedules 1, 12, 22, 32 and 48. For residential and small farm area lighting customers served under Schedule 48, the proposed credit is being applied on a uniform cents per kilowatt-hour basis to the energy usages of the various lights covered under that rate schedule. The calculation of the proposed rate credit is shown on page 1 of Attachment 4. The overall and percentage reduction amounts are also shown. As shown on page 2 of Attachment 4, the resulting decrease for a residential customer using 1,000 kilowatt-hours per month would be 7.96%, or $4.39 per month. The percentage decrease for a customer using 600 kWh per month would be 8.00%, or $2.63 per month. The decrease for a customer using 1,400 kWh per month would be 7.94%, or $6.14 per month.

The rate credits are set forth on proposed Schedule 59 – Residential and Farm Energy Rate Adjustment. The Company is proposing that the Schedule 59 rate credits become effective coincident with the date that the new rates covering the Company's proposed power cost surcharge reflected on proposed Sixth Revision Sheet 66 – Temporary Power Cost Adjustment become effective. In Case No. AVU-E-

01-11 the Company has requested an effective date of September 15, 2001 for Schedule 66. The reason for having the effective dates of Schedules 59 and 66 coincide is for administrative purposes only. There is no tie between the two rate filings. Having the same effective date will avoid residential and small farm customers from having a rate increase followed by a rate reduction.

The revenue reduction amount for the energy rate adjustment credit reflects a conversion factor for revenue related expense items. The conversion factor items utilized were from the same calculations authorized in the Company's most recent Idaho general case, updated for actuals through December 31, 2000, as filed with the Commission.

VI. SUMMARY

The Company respectfully requests that the Commission issue an order approving a residential and farm energy rate adjustment credit of 0.439¢ per kilowatt-hour effective coincident with the effective date of proposed Sixth Revision Sheet 66 – Temporary Power Cost Adjustment. The Company also requests approval of the proposed accounting as set forth above.

Dated at Spokane, Washington this 14th day of August 2001.

AVISTA CORPORATION

BY ______________________

Thomas D. Dukich

Director, Rates and Tariff Administration

VERIFICATION

STATE OF WASHINGTON)
)
County of Spokane)

Thomas D. Dukich, being first duly sworn on oath, deposes and says: That he is the Director - Rates and Tariff Administration of Avista Corporation and makes this verification for and on behalf of said corporation, being thereto duly authorized;

That he has read the foregoing Application, knows the contents thereof, and believes the same to be true.

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SIGNED AND SWORN to before me this 14th day of August 2001, by Thomas D. Dukich.

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NOTARY PUBLIC in and for the State of Washington, residing at Spokane.

Commission Expires: ______________