		RECEIVED ☑ FILED □
1 2 3 4 5 6	Kelly O. Norwood Vice-President, Rates and Regulation 1411 E. Mission Avenue P. O. Box 3727 Spokane, Washington 99220 Phone: (509) 495-4267, Fax: (509) 495-8856	2003 MAY 16 AM 10: 07 HEARTS PUBLIC UTILITIES COMMISSION
7	, , , , , , , , , , , , , , , , , , , ,	BLIC UTILITIES COMMISSION
8 9 10 11	APPLICATION OF AVISTA CORPORATION F DETERMINATION OF THE INTEREST RATE APPLY TO THE POWER COST ADJUSTMENT (PCA) DEFFERAL BALANCE	TO) CASE NO. AVU-E-03- $\underline{0}$
12	I. INTRODUCTION	
13	Avista Corporation, doing business as Avi	sta Utilities (hereinafter Avista or Company), at
14	1411 East Mission Avenue, Spokane, Washington, respectfully requests that the Commission issue	
15	an order setting forth the interest rate to apply to the Power Cost Adjustment (PCA) deferral balance	
16	Communications in reference to this Application should be addressed to:	
17 18 19 20 21 22 23	Kelly O. Norwood Vice President, Rates and Regulation Avista Corporation 1411 E. Mission Avenue Spokane, Washington 99220 Phone: (509) 495-4267 Fax: (509) 495-8856	David J. Meyer Senior Vice President and General Counsel Avista Corporation 1411 E. Mission Avenue Spokane, Washington 99220 Phone: (509) 489-0500 Fax: (509) 495-4361
24	II. PROXY CURRENTLY BEING USED FOR INTEREST RATE	
25	The Customer Deposit Rate is currently being used as the proxy for determination of the	
26	interest rate that is applied to the Company's PCA	deferral balance. The Customer Deposit Rate for
27	calendar year 2002 was 4% and for calendar year 2	003 is 2%. Pursuant to Rule 106.02 the Customer
28	Deposit Rate is determined for each calendar year	based on the twelve-month average of one-year
29	Treasury Bills for the previous November 1 through	h October 31 period, rounded to the nearest whole

percent. The 2% Customer Deposit Rate for 2003 was approved at the Commission's Decision Meeting held on Monday, November 25, 2002. The Company submitted a letter via fax prior to the Decision Meeting addressing its concerns about applying the 2% Customer Deposit Rate to the PCA and Purchased Gas Adjustment (PGA) balances. The Commission determined that an exception for the rate to apply to the PCA and PGA balances could be addressed in a separate proceeding. In this filing the Company is requesting an exception to the Customer Deposit Rate for the PCA deferrals due to the size and the multi-year recovery of the PCA deferrals. The Company is not requesting an exception for the interest rate that applies to PGA deferrals, since those deferrals are smaller and are expected to be fully recovered sometime during 2003.

III. A 2% RATE IS WELL BELOW AVISTA'S COST OF BORROWING

The 2% Customer Deposit Rate for 2003 is much lower than Avista's cost of borrowing. The Company cannot borrow funds at Treasury Bill rates. The Company's weighted cost of debt at December 31, 2002 is 8.88%. The PCA deferral balance is being recovered over multiple years to mitigate the rate impact on customers and the Company has issued long-term debt to finance the deferral balance. Even if the Company was able to finance the PCA deferral balance under its short-term credit arrangement, the most recent borrowing on April 25th was at a 5% interest rate plus 40 basis points for fees.

The net PCA deferral balance was approximately \$30.9 million at December 31, 2002. An interest rate drop from the rate for 2002 of 4% to the Customer Deposit Rate for 2003 of 2% amounts to a reduction of approximately \$618,000 annually in interest on a \$30.9 million balance. Interest amounts on the PCA deferral balance are significant and the Company requests an interest rate that is closer to Avista's cost of borrowing.

IV. SIZE AND MULTI-YEAR RECOVERY OF PCA DEFERRALS

The PCA deferral balances net of surcharge revenues are large and based on current projections the deferral balance is not expected to be fully recovered until mid-2005. Listed below is the actual year-end balance for 2002 and projected balances for the years 2003 through 2005:

December 31, 2002 (actual)	\$30,926,000
December 31, 2003 (projected)	\$23,633,000
December 31, 2004 (projected)	\$10,868,000
Mid-Year 2005 (projected)	\$0

22.

The projections are based on a continuation of the existing surcharge and estimated power cost deferrals. Actual hydro conditions, actual market prices and other factors could substantially affect the projected balances shown above.

PCA interest is calculated monthly with interest for the current month being calculated by applying the interest rate to the deferral balance net of accumulated surcharge revenue at the end of the previous month. The Company is requesting an exception to the Customer Deposit Rate for PCA interest and is requesting an interest rate that is closer to Avista's cost of borrowing as more fully described below.

V. REQUESTED PCA INTEREST RATE

The Company requests that the allowed interest rate to be applied to the PCA deferral balance be 200 basis points (2%) above the Customer Deposit Rate beginning January 1, 2003. For 2003 the resultant interest rate would be 4%. While this rate is still below the Company's actual cost of borrowing, applying the 2% adder to the Customer Deposit Rate produces a more reasonable rate. The Company requests that the rate determined by adding 2% to the Customer Deposit rate continue until the PCA deferral balance is fully recovered. At that time, the interest rate would revert back to being the Customer Deposit Rate without the 2% adder.

1	The Company submits that this filing is limited in scope and respectfully requests expedited
2	processing under the Commission's Modified Procedure rules.
3	Dated at Spokane, Washington this 15 th day of May 2003.
4	
5	AVISTA CORPORATION
6	BY Worword
7	BY
8	Kelly O. Norwood
0	Vice President Rates and Regulation

VERIFICATION

STATE OF WASHINGTON)
County of Spokane)

Kelly O. Norwood, being first duly sworn on oath, deposes and says: That he is the Vice President, Rates and Regulation of Avista Corporation and makes this verification for and on behalf of said corporation, being thereto duly authorized;

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

Telly Sowerd

SIGNED AND SWORN to before me this 15th day of May 2003, by Kelly O. Norwood.



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

Commission Expires: 2/22/06