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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR DETERMINATION OF THE INTEREST RATE TO APPLY TO THE POWER COST ADJUSTMENT DEFERRAL BALANCE	)))))	CASE NO. AVU-E-03-04 REPLY COMMENTS OF AVISTA CORPORATION

I. INTRODUCTION

Avista Corporation doing business as Avista Utilities (hereinafter Avista or Company), at 1411 East Mission Avenue, Spokane, Washington, respectfully files its Reply Comments in the above-entitled matter.

STAFF RECOMMENDATIONS

Staff recommends that Avista's request to apply a 2%, 200 basis point, adder to the customer deposit rate for purposes of calculating interest on power cost adjustment (PCA) balances be approved, but only applied to PCA balances that are carried forward beyond one year. Staff recommends that Avista should be required to separate the PCA balances to be carried forward beyond the one-year recovery period from the net PCA balance and apply the higher interest rate only to those carry forward deferrals. Staff further recommends that the 2% adder should be for the 2003 and 2004 years and that in the 2005 PCA year that the interest rate should convert back to the customer deposit rate without the 2% adder.

REPLY COMMENTS

Interest Rate

Staff recognizes that the customer deposit rate of 2% is below Avista's cost of borrowing and believes that it is reasonable to accept a 2% adder for the limited time that PCA recovery is extended. The resulting 4% rate (2% customer deposit rate plus 2% adder) beginning January 1, 2003 is less than Avista's April 25, 2003 short-term credit arrangement of 5% plus 40 basis points for fees and less than Avista's weighted cost of debt at December 31, 2002 of 8.88%. Staff believes "short-term borrowing rates continue to be representative of the interest rate to use for the PCA calculations."

Interest Rate to Apply to Carryover Balances

Staff proposes that "the higher interest rate should only be applied to carry-over amounts and not the net PCA balance." Staff further goes on to state, "This will require Avista to specifically identify the carry-over amounts separate from the new deferrals in its PCA calculation and reconciliation schedules."

The Company submits that the Staff is incorrect in their reasoning. The net PCA balance correctly represents the carry-over amount that has not yet been recovered and that is the amount that Avista is financing at rates between 5% and 9%. The net PCA balance is the accumulated amount of power cost deferrals less the accumulated amount of surcharge revenues received. The process of netting surcharge revenues against deferrals in the interest calculation means that no interest is calculated on the amount of deferrals that have been recovered. Interest is only calculated on the amount of deferrals that have not yet been recovered. Further, if deferrals in the current period are offset by surcharge revenues in the current period, then no interest is calculated on the current deferrals, as would be the case under a last-in-first-out (LIFO) assumption. Interest is only applied to the unrecovered net PCA deferral balance. The portion of new deferrals not fully offset by current surcharge revenues becomes a carry-over amount. Interest is only calculated on the carry-over amount.

If you assume current surcharge revenues offset deferrals from previous periods first before offsetting current deferrals (a first-in-first-out (FIFO) assumption), then the current deferrals become a carry-over amount together with the unrecovered deferrals from the previous periods. Again, interest is only calculated on the carry-over amount. No interest is calculated on the recovered amount. There is no need to identify carry-over amounts separate from new deferrals as Staff suggests. Whether you assume a FIFO or a LIFO recovery of deferrals from surcharge revenues, it doesn't change the fact that the unrecovered deferral balance at any point in time represents deferrals that haven't yet been recovered and are carried-over for future recovery.

There is not a question of applying a higher interest rate to unrecovered deferrals and applying a lower interest rate to current deferrals as Staff suggests. As explained above, no interest is applied to deferrals that have been recovered. The net PCA balance and the carry-over balance are one and the same. Interest is only applied to the unrecovered or carried-over deferrals. The 2% adder above the customer deposit rate should be the allowed interest rate to apply to the total unrecovered deferral balances.

Reverting Back to Customer Deposit Rate in 2005

Staff recommends that in the 2005 PCA year that the interest rate applicable to all Avista's PCA deferral balance should revert back to the interest rate on customer deposits. The Company does not agree with Staff's recommendation. While the Company is currently projecting the deferral balances to be fully recovered sometime in 2005, that may or may not occur depending upon what actual power supply conditions turn out to be. Even if the Company's projections turn out to be accurate, the interest rate should remain at the higher rate including the 2% adder until the deferral balance is fully recovered. The modified rate should stay in effect until the Company terminates the current PCA surcharge and begins a new deferral towards a future PCA surcharge or rebate trigger amount. Just because 2005 might be the last year of a multi-year recovery of deferred power costs, that situation would not justify a lowering of the interest rate by excluding the 2% adder. As explained earlier, no interest is calculated on deferral amounts that have been recovered by surcharge revenues. Interest is only applied to the unrecovered, carried-over balance and the interest on that balance should remain at the higher rate until the balance is fully recovered.

Respectfully submitted this 29th day of July 2003.

AVISTA CORPORATION

BY Kelly Norwood

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