

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION OF)
AVISTA CORPORATION FOR) CASE NO. AVU-E-03-4
DETERMINATION OF THE INTEREST RATE)
TO APPLY TO THE POWER COST)
ADJUSTMENT DEFERRAL BALANCE.) ORDER NO. 29323
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On May 16, 2003, Avista Corporation dba Avista Utilities filed an Application requesting that the Commission issue an Order setting the interest rate that applies to the Company's Power Cost Adjustment ("PCA") deferral balance at a higher level than the current rate for customer deposits. The Commission issued Notice of Application and Modified Procedure on June 12, 2003. Order No. 29264. The Commission Staff and Avista filed written comments.

After reviewing the record the Commission grants the Company's Application in the manner discussed below.

THE APPLICATION

Avista requests that the Commission issue an Order allowing the Company to apply a higher interest than the current customer deposit rate to its PCA deferral balance. Avista makes this request because it claims the current interest rate applicable to its PCA deferral balance is far below its cost of borrowing, the large size of the Company's PCA deferral balance, and the use of a multi-year process to fully recover the balance.¹

Historically, the Commission has used the customer deposit rate as the interest rate for utility PCA deferral balances. See Utility Customer Relations Rule 106, IDAPA 31.21.01.106. For the calendar year 2003 the Commission set the customer deposit rate at 2%. *Id.* at Rule 106.02. Avista requests that the Commission grant it an exception to application of this rate and set the interest rate at 2% above it, i.e., 4% for its PCA deferral balance. Avista requests that this interest rate be made effective back to January 1, 2003. Avista also requests

¹ The Company states that as of December 31, 2002 its PCA deferral balance was \$30,926,000. Through the multi-year recovery process the Company projects this balance will shrink to \$23,633,000 by December 2003, \$10,868,000 by December 2004 and \$0 sometime in 2005.

that the interest rate applicable to any PCA deferral balance revert back to the customer deposit rate as set annually by the Commission once the deferral balance is fully recovered.

SUMMARY OF COMMENTS

The comments filed by Staff and Avista cited two primary issues: 1) the interest rate and 2) the time frame. Both Staff and Avista agreed that a 200 basis point increase would be appropriate. The differences in positions come when determining what balance the rate should be applied to and for how long. Avista argued it should apply to the full current balance for as long as there is a net balance. Avista noted it is like using the last in first out (LIFO) method of accounting for the surcharge. Staff's argument relied on the first in first out (FIFO) method of accounting where the balances accrued first are paid first. Staff's position was that only the balances left after a typical one-year recovery period should receive the higher interest rate. Staff recommended the higher rate be applied to any carry-over balances for two years, 2003 and 2004. If the recovery period is longer, Avista could request an additional exemption.

Subsequent to filing comments, Staff and Avista discussed and agreed to a compromise solution that allows a 200 basis point increase in the interest rate applied to year end deferral balances during recovery based on the first in first out (FIFO) method of accounting. The customer deposit interest rate would continue to apply to new deferral balances accrued during the calendar year.

This interest rate methodology would begin January 1, 2003 and continue through June 30, 2005. Staff and Avista believed that allowing the interest rate increase in this manner during the period proposed is reasonable given the structure of Avista's PCA mechanism and the continued large balances of deferred costs to be recovered. Both parties also agreed that the period the interest rate methodology remains in place may be reassessed if actual deferrals or deferral recovery differ materially from current projections or from changes due to a general rate case.

COMMISSION FINDINGS AND DECISION

After reviewing the record in this case the Commission shall adopt the agreement reached between Staff and the Company. Accordingly, the Commission finds it is appropriate to include a 200 basis point increase in the interest rate applied to Avista's year end deferral balances during recovery based on the first in first out (FIFO) method of accounting. However,

the Commission also finds that the customer deposit interest rate would continue to apply to new deferral balances accrued during the calendar year.

The Commission finds that this interest rate methodology shall be applied from January 1, 2003 and continue through June 30, 2005. The Commission finds that allowing this interest rate increase is reasonable given the structure of Avista's PCA mechanism and the continued large balances of deferred costs to be recovered. Finally, the Commission also finds that the period the interest rate methodology remains in place may be reassessed if actual deferrals or deferral recovery differ materially from current projections or from changes due to a general rate case.

ORDER

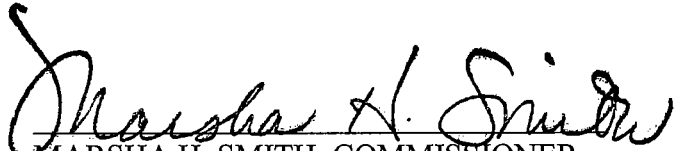
IT IS HEREBY ORDERED that the Commission grants Avista's Application in theory. Accordingly, a 200 basis point increase in the interest rate, raising it to 4% in 2003, shall be applied to Avista's year end deferral balances during recovery based on the first in first out (FIFO) method of accounting. This rate shall apply starting from January 1, 2003 and continue through June 30, 2005 or until the deferral balance is fully recovered.

IT IS FURTHER ORDERED that the current customer deposit interest rate shall continue to apply to new deferral balances accrued during the calendar year.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code § 61-626.*

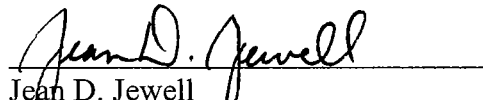
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 21st
day of August 2003.


PAUL KJELLANDER, PRESIDENT


MARSHA H. SMITH, COMMISSIONER


DENNIS S. HANSEN, COMMISSIONER

ATTEST:


Jean D. Jewell
Commission Secretary

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