

## DECISION MEMORANDUM

**TO:** COMMISSIONER KJELLANDER  
COMMISSIONER SMITH  
COMMISSIONER HANSEN  
COMMISSION SECRETARY  
COMMISSION STAFF  
LEGAL

**FROM:** JOHN HAMMOND

**DATE:** JUNE 4, 2003

**SUBJECT:** 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-03-4.

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 APPLICATION

The Commission has historically used the customer deposit rate, Utilities Customer Relations Rule 106, as the interest rate for utility PCA deferral balances. For the calendar year 2002 the customer deposit rate was 4% and for the calendar year 2003 it is 2%. Prior to the Commission setting the 2% customer deposit rate for 2003, Avista states it submitted a letter to the Commission outlining its concerns about applying the 2% customer deposit rate to the PCA and Purchased Gas Adjustment ("PGA") balances. Avista contends that in response the Commission directed the Company to address this issue in a separate proceeding. Avista states that its Application requests resolution of this issue. 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 due to its size and multi-year recovery process. At this time the Company states it has not requested an exception for the interest rate that applies to PGA deferrals, since those deferrals are smaller and expected to be fully recovered during 2003.

Avista alleges that the 2% customer deposit rate for 2003 is much lower than its cost of borrowing. For example, the Company contends that its weighted cost of debt at December 31, 2002 is 8.88%. In addition, Avista alleges that the deferral balance is being recovered over multiple years to mitigate the rate impact on customers and as a result it has issued long-term debt to finance the deferral balance. Thus, the Company contends that if it were able to finance the PCA deferral balance under a short-term credit arrangement, the most recent borrowing on April 25 was at 5% interest rate plus 40 basis points for fees.

As of December 31, 2002, the net PCA deferral balance was approximately \$30.9 million. The Company states that the interest rate drop from 4% to 2% amounts to a \$618,000 reduction annually in interest on this balance. The Company contends that this is significant and 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. This would make the interest rate 4%. The Company states that this rate is still below its actual cost of borrowing but it is a more reasonable rate. Avista requests that this rate be continued until its PCA deferral balance is fully recovered. The Company states that at that time, the interest rate would then revert back to being the customer deposit rate. Finally, the Company submits that this filing is limited in scope and believes it should be processed under the Commission's Rules for Modified Procedure.

#### **STAFF RECOMMENDATION**

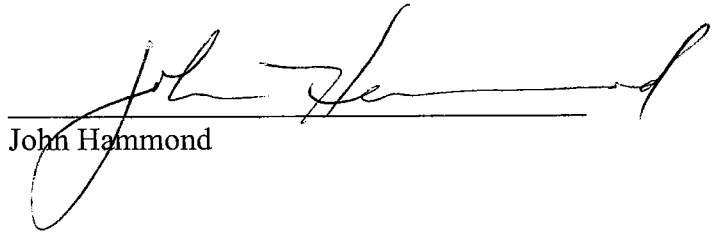
The Commission Staff has reviewed Avista's Application and makes the following recommendations regarding the processing of this filing. First, Staff recommends that the Commission establish an intervention deadline for interested persons and parties when it issues Notice of this Application. Staff recommends that this intervention deadline be twenty-one (21) days from issuance of the Notice of Application. Second, Staff recommends that the Commission process Avista's Application by Modified Procedure, i.e., by written submission, under the Commission's Rules of Procedure, IDAPA 31.01.01.201-.204. Staff recommends that the Commission require written comments to be filed on or before twenty-one (21) days after the intervention deadline has passed. Finally, Staff recommends that the Commission set a reply comment deadline for the Company.

## COMMISSION DECISION

Does the Commission wish to set an intervention deadline for interested persons and parties in this case?

Does the Commission wish to issue Notice of Application and process this case by Modified Procedure under the Commission's Rules?

Does the Commission wish to adopt the Staff's recommendation for the deadlines for filing written comments in this case?



John Hammond

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