

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION OF)
 AVISTA CORPORATION FOR THE) CASE NO. AVU-E-04-1
 AUTHORITY TO INCREASE ITS RATES AND) AVU-G-04-1
 CHARGES FOR ELECTRIC AND NATURAL)
 GAS SERVICE TO ELECTRIC AND NATURAL)
 GAS CUSTOMERS IN THE STATE OF IDAHO.) AMENDED
) INTERLOCUTORY
) ORDER NO. 29588**

On February 6, 2004, Avista Corporation dba Avista Utilities (Avista; Company) filed an Application with the Idaho Public Utilities Commission (Commission) for authority to increase its rates and charges for electric and natural gas service in the State of Idaho. The Company in northern Idaho serves approximately 109,315 electric customers and 61,799 natural gas customers. The Company's original request of \$35.2 million or a 24.1% increase in electric revenue was revised at hearing to \$31.1 million or 21.2%. The Company's original request of \$4.754 million or a 9.16% increase in natural gas revenue was revised at hearing to \$4.06 million or 7.8%. A proposed reduction in the Company's current Power Cost Adjustment (PCA) surcharge rate was also requested. The net amount of actual increase varies by class of customer and usage.

A technical hearing in Case Nos. AVU-E-04-1 and AVU-G-04-1 was held in Boise, Idaho the week of July 19, 2004. The following parties appeared by and through their respective counsel of record:

Avista Corporation	David S. Meyer, Esq.
Potlatch Corporation	Conley E. Ward, Esq.
Coeur Silver Valley, Inc.	Charles L. A. Cox, Esq.
Community Action Partnership Association of Idaho (CAPAI)	Brad M. Purdy, Esq.
Commission Staff	Scott D. Woodbury, Esq. Lisa Nordstrom, Esq.

Public testimony hearings were held in Kellogg and Sandpoint on July 26, 2004 and Lewiston on July 27, 2004. A continued technical hearing was held in Boise on August 16, 2004.

On September 9, 2004, the Commission issued Interlocutory Order No. 29588, an abbreviated Order identifying approved rate base, revenue requirement and resultant rates. The

Commission's Order also directed a change in the Company's PCA deferral account balance and authorized an extended PCA recovery period.

Interlocutory Order No. 29588 having previously issued earlier this date on September 9, 2004 and the Commission having since determined that additional language should be added pertaining to capital structure, authorized return on equity and overall rate of return; and the Commission further finding that an error in calculation of the electric rates necessitated a change in electric order language and rates, the Commission hereby issues Amended Interlocutory Order No. 29588. It is the Commission's intention that Amended Interlocutory Order No. 29588 be a substitute and replacement of the prior Interlocutory Order No. 29588. It is the Commission's intention to issue a final Order with detailed reasoning within 30 days.

Commission Findings

The Commission has reviewed the filings of record in Case Nos. AVU-E-04-1 and AVU-G-04-1 including the Prehearing Memorandum filed by Potlatch, the transcript of technical proceedings, the transcript of public testimony and filed public comments, and the Petition for Intervenor Funding filed by CAPAI.

Avista Utilities – Electric and Gas

The Commission approves a normalized 12 month test year ending December 31, 2002 based on an average of monthly averages rate base for Avista Utilities. We approve an embedded capital structure for Avista at December 31, 2003 consisting of 50.08% debt, 5.7% trust preferred securities, 1.76% preferred stock and 42.59% common equity. We accept an embedded cost of debt of 8.68%, embedded cost of 6.15% for trust preferred securities and embedded preferred stock cost of 7.35%. We approve a return on common equity of 10.4% and an overall weighted cost of capital and rate of return of 9.25%.

Electric:

Regarding the Company's electric operations, the Commission approves the following for rate base and revenue requirement. We also make ultimate findings regarding deferred PCA issues, Intervenor Funding and authorized changes in electric rates.

Rate Base

The Commission approves an electric pro forma rate base of \$424,114,000.

Revenue Requirement

Current revenue recovered in electric base rates is \$146,248,000. The Commission in this case approves a base revenue requirement of \$170,964,195, an increase in electric base rates of \$24,716,195 or 16.90%. The resultant average cents per kilowatt hour for base rates is 5.47 cents.

Power Cost Adjustment (PCA)

With respect to PCA issues deferred to this rate case in Order No. 29377 regarding Coyote Springs 2 (CS2), the Commission notes an audited PCA account balance May 31, 2004 of \$26,261,334 (reference Case No. AVU-E-04-3), disallows CS2 Deal B losses of \$6,496,669, and disallows \$4,771,550 of Deal A losses for a net PCA account balance total of \$14,993,115. The Commission approves the Company proposal to recover the remaining PCA deferral balance over a two-year period. The resultant annual PCA recovery is \$7,496,558, subject to annual PCA review and adjustment. The Commission authorizes a future change in the current uniform percentage recovery method to a recovery method based on energy consumption.

The Commission in this Order also approves the assignment and recovery from the residential class through the PCA of authorized CAPAI intervenor funding in the amount of \$12,622.75.

Electric Rates

The electric rates we approve as just and reasonable are set out in attached Schedule A (Electric). *Idaho Code* § 61-502. Base electric rates increase by \$24,716,000 while PCA rates decrease by \$20,337,000 and the Energy Efficiency Rider decreases by \$1,197,000. The result is a net increase of \$3,182,000 or 1.9%. The authorized revenue to be recovered in rates as set out below including residential exchange credit, Centralia credit, PCA surcharge and DSM rider is \$175,029,459 for a total average rate of 5.60 cents or 1.9%. We establish a separate rate schedule for Potlatch. The proposed increase for an electric residential customer using an average of 941 kWhs per month is \$4.01, or a 7.1% increase in their electric bill.

Intervenor Funding

The Commission approves CAPAI's Petition for Intervenor Funding in the requested amount of \$12,622.75. Reference *Idaho Code* § 61-617A. Our award is based on a finding that CAPAI's participation materially contributed to the Commission's decision, the costs of intervention are reasonable and would be a significant financial hardship for CAPAI if no award

is given, the recommendations made by CAPAI differed materially from Staff's case, and the CAPAI's participation addressed issues of concern to residential and low income customers. The award is to be recovered from residential customers through the Company's PCA mechanism.

Natural Gas:

Regarding Avista's natural gas operations the Commission approves the following for rate base and revenue requirement. We also make ultimate findings regarding natural gas rate base and authorized changes in natural gas rates.

Rate Base

The Commission approves a pro forma rate base of \$59,653,000.

Revenue Requirement

The Commission approves additional natural gas revenues of \$3,311,000 for a total revenue requirement of \$55,230,000, a 6.38% revenue increase.

Cost of Gas in Base Rates

The Commission adopts Avista's proposal to add the current PGA weighted average cost of gas (WACOG) adjustment of \$0.27186/therm to base rates to produce a total base rate gas cost of \$0.44989/therm.

Natural Gas Rates

The natural gas rates the Commission approves as just and reasonable are those set forth in attached Schedule B (Gas). *Idaho Code* § 61-502. The base rates we approve in this case are the fixed base rates incorporated in the Company's PGA adjustment authorized simultaneously in Order No. 29590, Case No. AVU-G-04-2. The proposed increase for a natural gas residential customer using an average of 73 therms of gas per month will be \$12.84 per month, or 21.39%.

CONCLUSIONS OF LAW

The Public Utilities Commission has jurisdiction over Avista Corporation dba Avista Utilities and its Application in Case Nos. AVU-E-04-1 and AVU-G-04-1 pursuant to Idaho Code, Title 61 and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

ORDER

In consideration of the foregoing and as more particularly described above, IT IS HEREBY ORDERED that Avista Utilities file tariffs in conformance with this Amended Interlocutory Order No. 29588 to be effective on September 9, 2004, for service rendered on and after that date.

IT IS FURTHER ORDERED that Community Action Partnership Association of Idaho is awarded intervenor funding in the amount of \$12,622.75.

THIS IS AN INTERLOCUTORY ORDER, not a final and appealable Order of the Commission. The period of reconsideration will not begin until the final Order is issued.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 9th day of September 2004.



PAUL KJELLANDER, PRESIDENT




MARSHA H. SMITH, COMMISSIONER



DENNIS S. HANSEN, COMMISSIONER

ATTEST:



Barbara Barrows
Assistant Commission Secretary

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AVISTA UTILITIES
AVU-E-04-1
Present and Commission Ordered Electric Rates

Residential Service - Schedule 1

	<u>Present Rates</u>		<u>Commission Ordered Rates</u>
Basic Charge	\$4.00	Basic Charge	\$4.00
First 600 kWhs	4.555 ¢/kWh	First 600 kWhs	5.717 ¢/kWh
All over 600 kWhs	5.303 ¢/kWh	All over 600 kWhs	6.487 ¢/kWh
PCA Rate 0 - 600 kWh	0.939 ¢/kWh	PCA Rate	0.286 ¢/kWh
All over 600 kWh	1.092 ¢/kWh		
Energy Efficiency Rider	0.104 ¢/kWh	Energy Efficiency Rider	0.081 ¢/kWh

General Service - Schedule 11

	<u>Present Rates</u>		<u>Commission Ordered Rates</u>
Basic Charge	\$6.00	Basic Charge	\$6.00
Energy Charge	6.564 ¢/kWh	First 3650 kWh	7.148 ¢/kWh
		All Over 3650 kWh	6.076 ¢/kWh
Demand Charge:		Demand Charge:	
20 kW or less	no charge	20 kW or less	no charge
Over 20 kW	\$3.50/kW	Over 20 kW	\$3.50/kW
PCA Rate	1.391 ¢/kWh	PCA Rate	0.335 ¢/kWh
Energy Efficiency Rider	0.140 ¢/kWh	Energy Efficiency Rider	0.095 ¢/kWh

Large General Service - Schedule 21

	<u>Present Rates</u>		<u>Commission Ordered Rates</u>
Energy Charge	3.996 ¢/kWh	First 250,000 kWh	4.688 ¢/kWh
		All Over 250,000 kWh	3.985 ¢/kWh
Demand Charge:		Demand Charge:	
50 kW or less	\$225.00	50 kW or less	\$250.00
Over 50 kW	\$2.75/kW	Over 50 kW	\$3.00/kW
Primary Voltage Discount	20¢/kW	Primary Voltage Discount	20¢/kW
PCA Rate	1.011 ¢/kWh	PCA Rate	0.256 ¢/kWh
Energy Efficiency Rider	0.100 ¢/kWh	Energy Efficiency Rider	0.073 ¢/kWh

Extra Large General Service - Schedule 25

	<u>Present Rates</u>		<u>Commission Ordered Rates</u>
Energy Charge	2.874 ¢/kWh	First 500,000 kWh	3.862 ¢/kWh
		All Over 500,000 kWh	3.259 ¢/kWh
Demand Charge:		Demand Charge:	
3,000 kva or less	\$7,500.00	3,000 kva or less	\$9,000.00
Over 3,000 kva	\$2.25/kva	Over 3,000 kva	\$2.75/kva
Primary Voltage Discount	20¢/kva	Primary Voltage Discount	20¢/kva
Annual Minimum	\$406,140	Annual Minimum	\$502,670
PCA Rate	0.607 ¢/kWh	PCA Rate	0.181 ¢/kWh
Energy Efficiency Rider	0.068 ¢/kWh	Energy Efficiency Rider	0.052 ¢/kWh

SCHEDULE A (Electric)
AMENDED INTERLOCUTORY
ORDER NO. 29588
CASE NOS. AVU-E-04-1
AVU-G-04-1

AVISTA UTILITIES
AVU-E-04-1
Present and Commission Ordered Electric Rates

Potlatch - Schedule 25P

<u>Present Rates</u>		<u>First 3650 kWh</u>	
Energy Charge	2.874 ¢/kWh	Energy Charge	3.333 ¢/kWh
Demand Charge:		Demand Charge:	
3,000 kva or less	\$7,500.00	3,000 kva or less	\$9,000.00
Over 3,000 kva	\$2.25/kva	Over 3,000 kva	\$2.75/kva
Primary Voltage Discount	20¢/kva	Primary Voltage Discount	20¢/kva
Annual Minimum	\$406,140	Annual Minimum	\$474,630
PCA Rate	0.607 ¢/kWh	PCA Rate	0.163 ¢/kWh
Energy Efficiency Rider	0.068 ¢/kWh	Energy Efficiency Rider	0.046 ¢/kWh

Pumping Service - Schedule 31

<u>Present Rates</u>		<u>Commission Ordered Rates</u>	
Basic Charge	\$6.00	Basic Charge	\$6.00
First 85 kWh/kW	5.716 ¢/kWh	First 85 kWh/kW	6.440 ¢/kWh
Next 80 kWh/kW	5.716 ¢/kWh	Next 80 kWh/kW	6.440 ¢/kWh
All additional kWhs	4.548 ¢/kWh	All additional kWhs	5.474 ¢/kWh
PCA Rate	0.888 ¢/kWh	PCA Rate	0.265 ¢/kWh
Energy Efficiency Rider	0.102 ¢/kWh	Energy Efficiency Rider	0.076 ¢/kWh

Street and Area Lights - Schedules 41-49

<u>Present Rates</u>		<u>Commission Ordered Rates</u>	
Base Rates	Various	Base Rate Increase	20.19%
PCA Surcharge	19.37%	PCA Surcharge	4.385%
Energy Efficiency Rider	1.95%	Energy Efficiency Rider	1.25%

SCHEDULE A (Electric)
 AMENDED INTERLOCUTORY
 ORDER NO. 29588
 CASE NOS. AVU-E-04-1
 AVU-G-04-1

AVISTA UTILITIES
AVU-G-04-1
Present and Commission Ordered Natural Gas Rates

General Service - Schedule 101

	<u>Present Rates</u> ¹		<u>Commission Ordered Rates</u> ²
Basic Charge	\$3.28	Basic Charge	\$3.28
All Therms	74.197 ¢/Therm	All Therms	80.050 ¢/Therm

Large General Service - Schedule 111

	<u>Present Rates</u> ¹		<u>Commission Ordered Rates</u> ²
1st 200 Therms	75.836¢/Therm*	1st 200 Therms	78.301¢/Therm*
Next 800 Therms	74.197¢/Therm	Next 800 Therms	76.481¢/Therm
Over 1,000 Therms	64.975¢/Therm	Over 1,000 Therms	66.239¢/Therm

*Minimum - \$97.30/Month
plus 27.186¢/Therm

*Minimum - \$156.60/Month

Large General Service - Schedule 121

	<u>Present Rates</u> ¹		<u>Commission Ordered Rates</u> ²
1st 500 Therms	74.852¢/Therm*	1st 500 Therms	77.209¢/Therm*
Next 500 Therms	74.197¢/Therm	Next 500 Therms	76.481¢/Therm
Next 9,000 Therms	64.975¢/Therm	Next 9,000 Therms	66.239¢/Therm
Over 10,000 Therms	63.284¢/Therm	Over 10,000 Therms	64.361¢/Therm

*Minimum - \$238.33/Month
plus 27.186¢/Therm

*Minimum - \$386.05/Month

Interruptible Service - Schedule 131

	<u>Present Rates</u> ¹		<u>Commission Ordered Rates</u> ²
All Therms	55.724¢/Therm	All Therms	56.586¢/Therm

Transportation Service - Schedule 146

	<u>Present Rates</u> ¹		<u>Commission Ordered Rates</u> ²
Basic Charge	\$0.00	Basic Charge	\$200 / Month
All Therms	10.574¢/Therm	All Therms	10.960¢/Therm

¹ Includes Purchase Gas Adjustment Schedule 150/Excludes all other rate adjustments

² Does not include Schedule 150 or any other rate adjustment.

SCHEDULE B (Natural Gas)
AMENDED INTERLOCUTORY
ORDER NO. 29588
CASE NOS. AVU-E-04-1
AVU-G-04-1