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Attorney for the Commission Staff

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.) STAFF REPLY TO AVISTA
PETITION FOR
RECONSIDERATION

On October 29, 2004, Avista Corporation (Avista; Company) filed a timely Petition for Reconsideration of Commission Order No. 29602 in Case Nos. AVU-E-04-1 and AVU-G-04-1. Staff offers the following comments regarding Company identified errors in calculation.

Deal A Corrections

Avista contends that there are four miscalculations related to the determination of Deal A losses that need to be corrected.

1. Company Contention: The Commission-ordered disallowance of \$4,771,550 is based on “one-third” of the Deal A losses. The Company has already absorbed 10% of the total Deal A losses through the 90%/10% sharing feature of the PCA. The effective disallowance is therefore 40% of the total losses—not the “one-third” disallowance ordered by the Commission. The Company proposed adjustment is \$1,060,344, reducing the Deal A disallowance figure to \$3,711,206.

2. Company Contention: The Deal A disallowance is based on total Deal A losses for the period November 2001 through May 2004. The losses in the period November 2001 through June 2002, however, had previously been authorized by the Commission for PCA recovery. To order a disallowance based on losses that were previously approved for recovery would, the Company contends, constitute retroactive ratemaking. The Company proposed adjustment is \$1,461,415, reducing the Deal A disallowance to \$2,249,791.

3. Company Contention: Staff Exhibit 141 relied upon by the Commission, has the wrong number of days for the months of July 2003 through May 2004. This error overstates the loss calculation for Deal A. ... The Company-proposed adjustment is \$91,035, reducing the Deal A disallowance figure to \$2,158,756.

4. Company Contention: The Staff Exhibit No. 141 calculation of Deal A gas losses includes an incorrect calculation of the Deal A gas profitably burned for the months of November 2003 through May 2004. It included only one-half of the Deal A gas profitably burned and should have included all of it, since Deal B had ended October 31, 2003. The Company-proposed adjustment is \$35,819, resulting in Company-calculated net Deal A adjusted disallowance figure of \$2,122,937.

The cumulative reduction for the four Company-identified miscalculations is \$2,648,937. Incorporating these four adjustments to the calculation of gas losses results in a Deal A disallowance of \$2,122,937. This compares to the Deal A disallowance of \$4,771,550 in Order No. 29602.

Staff Comments

With respect to items 3 and 4 identified above, Staff concurs with the corrections proposed by the Company as depicted in its Attachment C, which is an update of Staff witness Hessing's Exhibit 141. Staff notes that Staff Exhibit 141 was completed with the assistance of the Company. The corrections are to the wrong number of days in the month that were included in both Deals A and B, and to the incorrect calculation for gas profitably burned for the period November of 2003 through May of 2004.

Staff has incorporated these corrections into the calculation of the disallowance for Deal A as described in the Commission Order.

The methodology used to calculate Deal A disallowance is clearly specified in Order No. 29602 on page 46:

Deal A losses through May amounted to \$47,936,010 on a system basis; \$15,905,167 on an Idaho jurisdictional basis. With 90/10 sharing the Idaho PCA amount related to Deal A losses is \$14,314,651. Of that amount \$5,636,885 was previously authorized for PCA recovery (July 1 - June 2002). Based on our consideration of the record and Deal A findings, the Commission finds it reasonable to exclude or disallow one-third of the Idaho system Deal A losses, or \$4,771,550.

The table below duplicates the Commission specified methodology. The total amount of Deal A losses, at the system level, is multiplied by the allocation factor for the Idaho Jurisdiction, to come up with the Idaho Jurisdictional amount of the total Deal A losses. This amount is then adjusted to reflect the 10% sharing mechanism in the PCA calculation and the ratepayer portion of the losses. The ratepayer portion is then divided by three to arrive at the disallowance ordered by the Commission. Using the same methodology with corrections incorporating the proper number of days and the proper amount of gas profitably burned results in a Deal A disallowance of \$4,608,452.

	Commission Order	Commission Order With Corrections
1. Losses already recovered on Deal A:	\$18,876,448	\$18,876,448
2. Losses deferred for recovery on Deal A:	<u>\$29,059,562</u>	<u>\$27,421,045</u>
3. Total System losses on Deal A:	\$47,936,010	\$46,297,493
4. Jurisdictional Factor:	33.18%	33.18%
5. Idaho Jurisdictional Portion of Deal A Losses:	\$15,905,517	\$15,361,508
6. 10% Shareholder PCA Portion of Deal A Losses:	\$15,905,168	\$ 1,536,151
7. Ratepayer Portion of Deal A Losses:	\$14,314,651	\$13,825,357
8. One Third of Ratepayer Portion of Deal A Losses:	\$ 4,771,550	\$ 4,608,452
9. Disallowance Amount of Deal A Losses:	\$ 4,771,550	\$ 4,608,452

With respect to items 1 and 2 described above, the Company's calculation of the Deal A disallowance is not consistent with the Commission's Order. Rather than using total Deal A losses of \$46,421,045 (as corrected) to calculate the disallowance as specified by the Commission, the Company uses only Deal A losses of \$27,421,045 (as corrected) currently deferred for recovery. The Company then improperly takes one third of the unrecovered Idaho jurisdictional Deal A losses before applying the 10% percent PCA sharing. This is in contrast to

the Commission Order that applies the 10% sharing first to the Idaho Jurisdictional losses and then takes one third of the remaining total to establish the disallowed amount.

The Company has calculated the Deal A disallowance in the following manner:

Deal A losses deferred for recovery:	\$27,421,045
Jurisdictional Factor:	33.18%
Idaho Jurisdictional Portion of Unrecovered Deal A Losses:	\$ 9,098,303
One Third of Idaho Jurisdictional portion of Unrecovered Deal A Losses:	\$ 3,032,768
Less 10% of Idaho Jurisdictional portion of Unrecovered Deal A Losses:	\$ 909,830
Company Disallowance Amount of Deal A Losses	\$ 2,122,937

The Company perceives inclusion of the \$18,876,448 in the Deal A disallowances calculation to be retroactive ratemaking and therefore, removes the amount to correct what it characterizes as a calculation error. However, the Commission Order clearly states “. . . \$5,636,885 was previously authorized for PCA recovery (July 1–June 2002).” The \$5,636,885 is the Idaho jurisdictional ratepayer share of \$18,876,448. Total Deal A losses were simply used in the Order to establish what amount of the additional losses were subject to recovery through the PCA and what amount were not. Prior amounts recovered in rates are not being reversed.

In summary, the net effect of the proposed corrections 3 and 4 is an increase in Deal A loss recovery through the PCA of \$163,098 after applying the Commission ordered disallowance methodology.

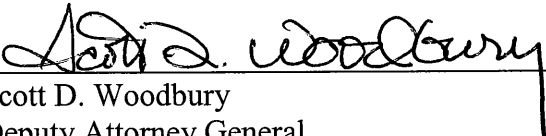
Pension Expense Adjustment

Company Contention: Avista contends that the electric revenue requirement should be increased by \$46,411 and the natural gas revenue requirement should be increased by \$11,422 to correctly reflect the impact of the Commission’s adjustment to the Company’s pension expense. The identified changes are needed to correctly allocate the “system” corporate level of pension expense to utility operations prior to applying the Idaho jurisdictional allocation factors. This step was omitted during the calculation of pension expense allowed in Order No. 29602.

Staff Comments

Avista in its Petition for Reconsideration identified a technical correction to the adjustment of the Company’s pension costs resulting in an increase to the electric and natural gas revenue requirements calculated in Order No. 29602. As noted in its Petition, Staff agrees with this technical correction proposed by the Company.

DATED at Boise, Idaho this 5th day of November 2004.



Scott D. Woodbury
Deputy Attorney General
for the Commission Staff

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 5TH DAY OF NOVEMBER 2004, SERVED THE FOREGOING **STAFF REPLY TO AVISTA PETITION FOR RECONSIDERATION**, IN CASE NO. AVU-E-04-1/AVU-G-04-1, BY E-MAILING A COPY THEREOF AND BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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