

IDAHO PUBLIC UTILITIES COMMISSION
Case No. AVU-E-04-1, AVU-G-04-1 Order No. 29638
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Commission denies Avista reconsideration on most issues

Boise – The Idaho Public Utilities Commission today denied Avista Utilities' request for reconsideration of the commission's earlier decision to deny the company recovery for a major gas transaction and for construction cost overruns of the Boulder Park generation project in Spokane. The commission did allow some computational corrections sought by Avista that will not have an immediate impact on rates.

On October 8, the commission approved an overall 1.9 percent increase in electric rates for Avista customers and a 6.38 percent in gas rates. The company had sought an overall 11 percent increase in electric rates a 9 percent increase in gas rates.

As part of that rate case, the commission denied Avista authority to recover from its customers a total of \$4.77 million, which was one-third of Idaho's share of an Avista purchase of natural gas to fuel the utility's Coyote Springs 2 combustion turbine. The commission also denied the utility authority to recover \$2.6 million in costs attributable to construction overruns for the Boulder Park generation project.

On, October 29, Avista petitioned for reconsideration on both those issues. The order issued today by the commission is final. Aggrieved parties may appeal to the state Supreme Court.

Because the Coyote Springs 2 combustion turbine was not operational by the time the gas was to be delivered, Avista was forced to sell the gas back into the market at a loss and had to go to the electric market to buy replacement power.

Avista argued the gas purchase, known as Deal A, was prudent given what the company knew at the time and that the purchase fell within the company's risk management guidelines. The utility also argued that the transaction should be allowed because its affiliate, Avista Energy, was not a party to the transaction. In its original order, the commission rejected a similar \$6.5 million gas purchase, known as Deal B, partly because the transaction was with Avista Energy.

The commission, in denying reconsideration, said the Deal A "transaction both in length (36 months) and financial exposure was unprecedented for Avista and was accompanied by little supporting analysis and paper trail."

Although Avista's affiliate was not a counter-party to the Deal A transaction, Avista Energy brokered the deal, the commission said. "Thus, contrary to Avista's contention, Deal A hedge losses cannot be viewed separate and apart from any Avista Energy involvement."

The commission said the nature of the Deal A transaction exposed Avista customers to risk that, while more appropriate for its unregulated subsidiary, was too much of a risk for the regulated side of the company. "Deal A was highly irregular and apart from any other transactions made by Avista. The fact that the company failed to purchase gas with the same kind of long-term deals for its gas customers that it did for its electric customers, we find, also demonstrates the company's inconsistency," the commission said.

Potlatch, a forest products company and large customer of Avista, filed a Cross Petition for Reconsideration regarding the Deal A transaction, arguing that the commission should have disallowed the entire purchase, not just one-third. Avista's decision to lock-in the price for 36 months was a gamble on the price direction of the natural gas futures market, an unprecedented move for Avista, Potlatch argued.

The commission disagreed, stating that while both the Deal A and Deal B transactions were objectionable, they were not expressly prohibited by commission order or established protocol. "It is a grey area, not black and white," the commission said. "The commission has a joint obligation to the utility and its customers," and has the authority under Idaho Code to assess the reasonableness of the company's actions, the commission said.

Avista called the commission's attention to some miscalculations in determining the losses attributable to Deal A that, in total, increase the loss recovery for Avista by \$163,098. That amount will be calculated into Avista's power cost adjustment next year.

Regarding Boulder Park, the commission said customers should not be liable for most of the cost overruns on the generation project, which, at \$31.9 million, was 53 percent higher than the projected \$21 million. The commission allowed a 15 percent contingency for cost overruns. Washington customers of Avista also are assigned some of the cost. Idaho's share of the disallowance should be \$2.6 million, the commission said. The company argued that the disallowance should not exceed the 10 percent of final project costs recommended by commission staff, or \$1.1 million.

The commission found that Avista should be held to a higher standard than that recommended by commission staff. "Ratepayers, we found, should not be asked to pay for what we continue to find to be a company learning experience," the commission said.

Avista also petitioned for reconsideration of adjustments made by the commission to the company's pension costs. The correction, allowed by the commission, results in a \$46,411 increase in the company's electric revenue requirement and an \$11,422 increase in the natural gas revenue requirement. The impact on rates is negligible.

Documents related to the case are found on the commission's Web site at www.puc.state.id.us. Click on "File Room," then on "Electric Cases," and scroll down to Case No. AVU-E-04-1 for the electric case. For the gas case, click on "Gas Cases," and scroll down to Case No. AVU-G-04-1.