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IDAHO PUBLIC
UTILITIES COMMISSION

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2 Vice President and Chief Counsel of
3 Regulatory and Governmental Affairs
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12 BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION
13

14 IN THE MATTER OF THE SUBMISSION OF THE)
15 POWER COST ADJUSTMENT (PCA) STATUS)
16 REPORT OF AVISTA CORPORATION AND)
17 REQUEST FOR RECOVERY OF POWER COSTS)
18 DEFERRED THROUGH JUNE 30, 2004)
19

CASE NO. AVU-E-04-03

20 **I. INTRODUCTION**

21 Avista Corporation doing business as Avista Utilities (hereinafter Avista or Company), at
22 1411 East Mission Avenue, Spokane, Washington, respectfully files the status report as required by
23 the Commission¹, and requests the Commission issue an order approving recovery of power costs
24 deferred through June 30, 2004. The existing PCA surcharge of 19.4% is currently scheduled to
25 expire on October 11, 2004. Avista has requested in its pending general rate case, Case No. AVU-E-
26 04-1, that the existing PCA surcharge be reduced at the time that new base tariff rates are made
27 effective at the conclusion of the general rate case.

28 The 19.4% surcharge was originally authorized by this Commission in Order No. 28876
29 dated October 11, 2001 in Case No. AVU-E-01-11. The surcharge was extended by Order No.

¹ As stated by the Commission at page 12 of its Order No. 29377 dated November 18, 2003 in Case No. AVU-E-03-6: "Avista is directed to file a PCA status report with the filing of the Company's next electric general rate case and 60 days prior to expiration of the authorized surcharge."

1 29130 dated October 11, 2002 in Case No. AVU-E-02-6, and by Order No. 29377 dated November
2 18, 2003 in Case No. AVU-E-03-6.

3 Pursuant to Order No. 29377, this filing, along with the attached testimony and associated
4 workpapers (incorporated herein by reference), serves as the status report, which is required to be
5 filed 60 days prior to the expiration of the term of the surcharge. In this filing the Company has
6 identified the power cost deferrals during the review period, and has explained the primary factors
7 causing the PCA deferrals.

8 The Company requests that this status report be processed under the Commission's Modified
9 Procedure rules.

10 Communications in reference to this Application should be addressed to:

11 Kelly O. Norwood
12 Vice President
13 State and Federal Regulation
14 Avista Corporation
15 1411 E. Mission Avenue
16 Spokane, Washington 99220
17 Phone: (509) 495-4267
18 Fax: (509) 495-8856
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II. DEFERRAL ACTIVITY AND REPORTING

20 The deferral balance of \$26.1 million at June 30, 2004 is shown below, together with the
21 changes in the balance since June 30, 2003. Mr. McKenzie's testimony explains the changes in the
22 deferral balance and Mr. Storro's testimony provides additional explanation of the factors causing
23 the deferral entries for the period July 2003 through June 2004.

24	Unrecovered balance at June 30, 2003	\$27,843,108
25	Net Deferral Activity (July 2003 - June 2004)	26,890,298*
26	Amortizations Related to Surcharge Revenues (July 2003 - June 2004)	<u>-28,627,479</u>
27	Unrecovered balance at June 30, 2004	<u>\$26,105,927</u>

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<u>*Deferral Activity Detail</u>	
Net Increase in Power Supply Cost	\$28,664,583
Centralia Capital and O&M Credit	-2,817,996
Interest	<u>1,043,711</u>
Net Deferral Activity (July 2003 – June 2004)	<u>\$26,890,298</u>

Monthly reports have been filed with the Commission regarding actual PCA deferral entries to date. To facilitate Staff's review, additional copies of those reports for the months of July 2003 through June 2004 have been included with this filing and have also been provided to Potlatch Corporation who intervened in AVU-E-01-11 and AVU-E-02-6. As already noted, the Company requests that this filing be processed under the Commission's Modified Procedure rules. The rates associated with the existing PCA surcharge will not change as a result of this filing. The level of PCA surcharge that will be approved on an ongoing basis is being addressed in the Company's general rate case filing.

III. FINANCIAL IMPLICATIONS

The unrecovered deferral balance has declined from the \$27.8 million balance at June 30, 2003 to the \$26.1 million balance at June 30, 2004. Investor concerns surrounding cash flows, deferral balances and the ability to recover costs in a timely manner have had an impact on the Company's financings that continues today.

Avista's credit ratings are below investment grade. Because of Avista's present credit ratings, debt is more expensive. It is imperative for both the Company and our customers that Avista continue to improve its financial condition so that investment grade credit ratings can be restored.

1 The Company's current credit ratings are summarized in the table below:

	<u>Standard & Poor's</u>	<u>Moody's</u>	<u>Fitch, Inc.</u>
2 Avista Corporation			
3 Corporate/Issuer rating	BB+	Ba1	BB+
4 Senior secured debt	BBB-	Baa3	BBB-
5 Senior unsecured debt	BB+	Ba1	BB+
6 Preferred stock	BB-	Ba3	BB
7			
8			

9 On a positive note, the Company entered into a new committed short-term line of credit on
10 May 6, 2004 with various banks in the total amount of \$350.0 million. The line of credit expires on
11 May 5, 2005 and replaced the committed line of credit of \$245.0 million line that would have
12 expired on May 11, 2004. It is important for the Company to regain an investment grade credit
13 rating as soon as possible so that longer-term debt can be refinanced on more reasonable terms,
14 benefiting customers with lower debt-related costs. In addition, the Company needs continued
15 access to capital on reasonable terms to continue operations and fund new facilities to serve
16 customers. Credit ratings will take time to be restored and continuation of the PCA surcharge and
17 recovery of deferred costs is very important for the Company to continue to improve its financial
18 condition.

19 IV. NO TARIFF CHANGES

20 The rates set forth under the PCA Schedule 66 will not change as a result of this filing. As
21 previously mentioned, the level of PCA surcharge that will be approved on an ongoing basis is being
22 addressed in the Company's pending general rate case filing, Case No. AVU-E-04-1. Avista is
23 requesting in its pending general rate case that the existing PCA surcharge be reduced at the time that
24 new base tariff rates are made effective at the conclusion of the general rate case.

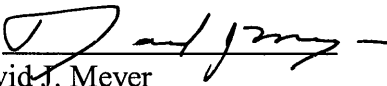
1 The Company continues to offer a number of customer bill paying assistance options. These
2 assistance options are identified and explained in Mr. McKenzie's direct testimony.

3 **V. REQUEST FOR RELIEF**

4 The Company respectfully requests the Commission for an order approving recovery of
5 power costs deferred through June 30, 2004. The Company requests that this status report filing and
6 request for recovery of deferred power costs be processed under the Commission's Modified
7 Procedure rules.

8 Dated at Spokane, Washington this 10th day of August 2004.

9
10 AVISTA CORPORATION

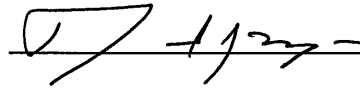
11 BY 
12 David J. Meyer
13 Vice President and Chief Counsel of
14 Regulatory and Governmental Affairs
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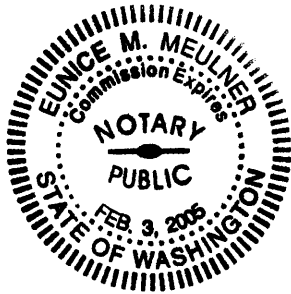
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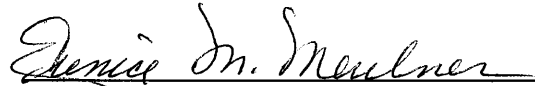
STATE OF WASHINGTON)
)
County of Spokane)

David J. Meyer, being first duly sworn on oath, deposes and says: That he is the Vice President and Chief Counsel of Regulatory and Governmental Affairs of Avista Corporation and makes this verification for and on behalf of said corporation, being thereto duly authorized; That he has read the foregoing filing, knows the contents thereof, and believes the same to be true.



SIGNED AND SWORN to before me this 10th day of August 2004, by David J. Meyer.





NOTARY PUBLIC in and for the State of
Washington, residing at Spokane.

Commission Expires: 2/3/05

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE SUBMISSION OF THE)
POWER COST ADJUSTMENT (PCA) STATUS)
REPORT OF AVISTA CORPORATION AND)
REQUEST FOR RECOVERY OF POWER COSTS)
DEFERRED THROUGH JUNE 30, 2004)

CASE NO. AVU-E-04-03
DIRECT TESTIMONY
OF
RONALD L. MCKENZIE

FOR AVISTA CORPORATION

1 **Q. Please state your name, the name of your employer and your business address.**

2 A. My name is Ronald L. McKenzie. I am employed by Avista Corporation at 1411
3 East Mission Avenue, Spokane, Washington.

4 **Q. In what capacity are you employed?**

5 A. I am employed by Avista as Manager of Regulatory Accounting in the Rates and
6 Regulation Department.

7 **Q. Please state your educational background and professional experience.**

8 A. I graduated from Eastern Washington University in 1973 with a Bachelor of Arts
9 Degree in Business Administration, majoring in Accounting. I joined the Company in September
10 1974. I obtained a Master of Business Administration Degree from Eastern Washington
11 University in 1989. I have attended several utility accounting and ratemaking courses and
12 workshops. I have held various accounting positions within the Company. I have served in the
13 Rates Department for the majority of my career with the Company.

14 **Q. What is the scope of your testimony in this proceeding?**

15 A. My testimony provides a status report of the accounting entries and account
16 balances related to the Idaho Power Cost Adjustment (PCA) for the twelve months ended June
17 30, 2004. The unrecovered deferral balance at June 30, 2004 is \$26,105,927. I explain that
18 Avista has requested in its pending general rate case, Case No. AVU-E-04-1, that the existing
19 PCA surcharge be reduced at the time that new base tariff rates are made effective at the
20 conclusion of the general rate case. In this filing no change is being requested to the existing
21 PCA Schedule 66 rate.

22 **Q. Are you sponsoring an Exhibit?**

1 A. Yes. I am sponsoring Exhibit No. ____ (RLM-1), consisting of the existing PCA
2 tariff, Schedule 66.

3 **Q. Would you please show the change in the unrecovered deferral balance from**
4 **June 30, 2003 to June 30, 2004?**

5 A. Yes. The change in the unrecovered deferral balance from June 30, 2003 to June
6 30, 2004 is shown below:

7	Unrecovered balance at June 30, 2003	\$27,843,108
8	Net Deferral Activity (July 2003 - June 2004)	26,890,298
9	Amortizations Related to Surcharge Revenues (July 2003 – June 2004)	<u>-28,627,479</u>
10	Unrecovered balance at June 30, 2004	<u>\$26,105,927</u>

11 **Q. Would you please show the major components of the deferral account activity**
12 **amount of \$26,890,298 shown above?**

13 A. Yes. Listed below are the major components of the deferral account activity that
14 were recorded for the twelve-month period July 2003 through June 2004:

15	<u>Deferral Activity Detail</u>	
16	Net Increase in Power Supply Cost	\$28,664,583
17	Centralia Capital and O&M Credit	-2,817,996
18	Interest	<u>1,043,711</u>
19	Net Deferral Activity (July 2003 – June 2004)	<u>\$26,890,298</u>

20 **Q. Would you please explain the components listed above?**

21 A. Yes. The net increase in power supply cost of \$28,664,583 represents the Idaho
22 jurisdictional share of the excess power costs deferred under the PCA mechanism by Avista for
23 the twelve months ended June 30, 2004. Mr. Storro discusses the components that make up this
24 amount. Excess power costs amounting to \$2,548,091 were absorbed by the Company for the
25 twelve-month period.

1 The Centralia capital and O&M credit of -\$2,817,996 reflects the removal of operation
2 and maintenance expense, depreciation, taxes, and return on investment as those costs no longer
3 exist as a result of the sale of the plant. The credit is reflected at 100% in accordance with Order
4 No. 28876 dated October 11, 2001 in Case No. AVU-E-01-11. After the general rate case is
5 decided, the credit will not be a component of the PCA deferral calculation, as new base tariff
6 rates will no longer reflect Centralia costs.

7 The \$1,043,711 interest amount represents interest for the twelve-month period July 1,
8 2003 through June 30, 2004. Interest has been calculated using the Customer Deposit Rate (July-
9 December 2003 of 2%, January-June 2004 of 1%) on current year deferrals and the Customer
10 Deposit Rate plus 2% on carryover balances from one year to the next. This interest rate
11 methodology was approved by Order No. 29323 in Case No. AVU-E-03-04 dated August 21,
12 2003.

13 **Q. Was a notice supplied to customers regarding the Company's PCA status**
14 **report and request for recovery of deferred power costs?**

15 A. No. The level of PCA surcharge that will be approved on an ongoing basis is being
16 addressed in the Company's pending general rate case filing, Case No. AVU-E-04-1. A
17 customer notice was issued as a bill insert in the general rate case filing. In the general rate case
18 the Company has requested that the PCA surcharge be reduced at the time that new general rates
19 are placed into effect to help mitigate the impact of the general rate increase. Therefore, a
20 customer notice related to the Company's request to extend the PCA surcharge, at a lower PCA
21 rate, has already been provided to customers.

22 **Q. Is the Company continuing with its customer bill paying assistance programs?**

1 A. Yes. The Company has several programs available to assist customers with paying
2 their bills. Avista's comfort level billing program offers customers the option of averaging their
3 bills and paying the same monthly amount all year long in order to smooth out the seasonal highs
4 and lows. Under the C.A.R.E.S. (Customer Assistance Referral and Evaluation Service)
5 program, specially trained customer service representatives provide referrals to area agencies and
6 churches for customers with special needs for help with housing, utilities, medical assistance, etc.
7 LIHEAP (Low Income Heating Energy Assistance Program) is a Federal program aimed to help
8 low income customers pay their electric and gas bills. These funds are distributed through local
9 agencies. Idaho customers who have children, elderly or infirmed in the household may qualify
10 for the winter moratorium plan. From December 1 through February 28, customers are not
11 required to pay their bills in full and can defer payment or make partial payments. The Company
12 also works out payment arrangements with customers having difficulty paying their bills.

13 In addition, the Company has convenience options that help those who need flexibility,
14 but are generally able to pay. APS, or automatic payment service (money is deducted from
15 checking account automatically each month), is a good example. Other popular services include
16 debit and credit card service, check-by-phone or over the web, preferred due date (the customer
17 picks a more convenient date to pay than the one the Company states on the bill), and e-billing.

18 **Q. If the Company's proposal to reduce the PCA surcharge is accepted by the**
19 **Commission when the general rate case increase is approved, would a change be required**
20 **to the current PCA tariff, Schedule 66?**

21 A. Yes. Based on the Commission's order in the general rate case, Schedule 66 would
22 be revised to reflect the new surcharge level adopted by the Commission. Page 1 of Exhibit No.
23 ____ (RLM-1) is a copy of the existing Schedule 66.

1 **Q. Does that conclude your prefiled direct testimony?**

2 **A. Yes it does.**

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE SUBMISSION OF THE) CASE NO. AVU-E- 04-03
POWER COST ADJUSTMENT (PCA) STATUS)
REPORT OF AVISTA CORPORATION AND) EXHIBIT NO. ___(RLM-1)
REQUEST FOR RECOVERY OF POWER COSTS)
DEFERRED THROUGH JUNE 30, 2004) RONALD L. MCKENZIE

FOR AVISTA CORPORATION

I.P.U.C. No.28

AVISTA CORPORATION
d/b/a Avista Utilities

SCHEDULE 66

TEMPORARY POWER COST ADJUSTMENT - IDAHO

APPLICABLE:

To Customers in the State of Idaho where the Company has electric service available. This Power Cost Adjustment shall be applicable to all retail customers for charges for electric energy sold and to the flat rate charges for Company-owned or Customer-owned Street Lighting and Area Lighting Service. This Rate Adjustment is designed to recover or rebate a portion of the difference between actual and allowed net power supply costs.

MONTHLY RATE:

The energy charges of the individual rate schedules are to be increased by the following amounts:

Schedule 1	
0 - 600 kwhs	0.939¢ per kwh
over 600 kwhs	1.092¢ per kwh
Schedules 11 & 12	1.391¢ per kwh
Schedules 21 & 22	1.011¢ per kwh
Schedules 25	0.607¢ per kwh
Schedules 31 & 32	0.888¢ per kwh

Flat rate charges for Company-owned or Customer-owned Street Lighting and Area Lighting Service are to be increased (decreased) by the following percentage:

Schedules 41-49	19.37%
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SPECIAL TERMS AND CONDITIONS:

The rates set forth under this Schedule are subject to periodic review and adjustment by the IPUC based on the actual balance of deferred power costs.

Service under this schedule is subject to the Rules and Regulations contained in this tariff.

The above Rate is subject to increases as set forth in Tax Adjustment Schedule 58.

Issued July 17, 2001

Effective October 12, 2001

Issued by Avista Utilities
By

Thomas D. Dukich, Director of Rates & Regulatory Affairs

Thomas D. Dukich

DAVID J. MEYER
VICE PRESIDENT AND CHIEF COUNSEL OF
REGULATORY AND GOVERNMENTAL AFFAIRS
AVISTA CORPORATION
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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE SUBMISSION OF)
THE POWER COST ADJUSTMENT (PCA))
STATUS REPORT OF AVISTA CORPORATION)
AND REQUEST FOR RECOVERY OF POWER)
COSTS DEFERRED THROUGH JUNE 30, 2004)

CASE NO. AVU-E-04-03

DIRECT TESTIMONY
RICHARD L. STORRO

FOR AVISTA CORPORATION

1 **I. INTRODUCTION**

2 **Q. Please state your name, employer and business address.**

3 A. My name is Richard L. Storro. My business address is 1411 East Mission
4 Avenue, Spokane, Washington, and I am employed by the Company as the Director of
5 Power Supply.

6 **Q. What is your educational background?**

7 A. I participated in a program with the College of Idaho and the University of
8 Idaho, where upon completion I received a Bachelor of Science degree in physics from
9 the College of Idaho and a Bachelor of Science degree in electrical engineering from the
10 University of Idaho, both in 1973.

11 **Q. How long have you been employed by the Company?**

12 A. I started working for Avista in 1973 as a distribution engineer. I have
13 worked in various engineering positions, and have held management positions in line and
14 gas operations, system operations, hydro production and construction, and transmission. I
15 joined the Energy Resources Department as a Power Marketer in 1997 and became
16 Director of Power Supply in 2001. My primary responsibilities involve the oversight of
17 both the short-term and long-term planning and acquisition of power supply resources for
18 the Company.

19 **Q. What is the scope of your testimony in this proceeding?**

20 A. My testimony will provide a brief summary of the factors driving power
21 supply expenses during the review period, July 2003 through June 2004. I then provide

1 an update on the status of Coyote Springs 2 and outline the documentation provided with
2 this application.

3 **II. SUMMARY**

4 **Q. Would you please summarize power supply expenses during the July**
5 **2003 through June 2004 review period?**

6 A. Yes. During the review period, Idaho's share of power supply expenses
7 exceeded the authorized level by \$31,212,674. Of that total, the Company absorbed
8 \$2,548,091 or 10 percent of the additional power costs subject to the 90%/10% sharing.¹
9 This resulted in a net increase in power supply costs for the period of \$28,664,583.

10 Power supply expenses were higher than the authorized level due to several
11 factors. The largest factor was hydro generation, which was approximately 78.5 aMW
12 below the authorized level, which would account for approximately \$9.2 million of
13 increased expense. The sale of fixed-price gas added approximately \$4.5 million to
14 Idaho's share of power supply expense. Most of the fixed price gas was sold because
15 often it was less expensive to sell gas and purchase electricity than it was to generate
16 power with gas. The costs associated with the fixed-price gas contracts included in the
17 PCA deferral balance are being addressed in the general rate case proceeding. These
18 contracts are referred to as Deals "A" and "B."

19 Total natural gas fuel expense was approximately \$5.3 million higher than the
20 authorized amount due primarily to Coyote Springs 2 being in operation for the period

¹ The Potlatch power purchase and revenue associated with the purchase is tracked at 100% in the PCA per Idaho Public Utilities Commission Order No. 29418 dated January 15, 2004. The 10% portion absorbed by Avista is based on the portion of the PCA deferrals that are shared 90%/10% which was \$25,480,885 during the review period.

1 July 1, 2003 through January 15, 2004. Thermal fuel expense for the Colstrip and Kettle
2 Falls plants was approximately \$6 million lower than the authorized amount.

3 Another factor driving the deferrals is the age of the authorized case. The
4 authorized case is based on the contracts and resources in place for the period July 1999
5 through June 2000. During that period, the Company had many large off-system power
6 sales that generated significant revenue. Almost all of these sales have ended and, as
7 such, the revenue is reduced, which is reflected in a reduction in Account 447, Sale for
8 Resale, revenue of \$72 million on a system basis (\$24 million Idaho share).

9 The Company entered into five new long-term contracts during the review period.
10 In July 2003, the Company signed a 44-month contract to purchase power from a small
11 co-generation plant. In November 2003, the Company entered into a contract with other
12 owners of Colstrip Units 3 and 4 to provide power to the water pumps serving the plant,
13 with a like amount of power either purchased at index or returned to Avista at Mid-
14 Columbia. In December 2003, the Company entered into a contract for 2004 to purchase
15 exchange capacity. In April of 2004 the Company entered into a 10-year wind purchase,
16 and in June 2004 the Company entered into a seven and one-half year agreement to
17 purchase the output of the City of Spokane's Upriver hydroelectric plant. In addition, the
18 Company began taking delivery of 100 MW of power purchased for the period 2004
19 through 2006 from contracts that were executed in 2002. These contracts have been
20 provided confidentially to IPUC Staff.

21

22

1 **III. COYOTE SPRINGS 2 ISSUES**

2 **Q. Could you please provide a brief overview of the Coyote Springs 2**
3 **project?**

4 A. Yes. The Coyote Springs 2 project began commercial operation on July 1,
5 2003 and operated until January 15, 2004. On January 15, 2004, operating indicators at
6 the Coyote Springs 2 project noted a potential internal arcing problem in the plant
7 generator step-up transformer (the main transformer connecting the plant to the grid).
8 Numerous tests were conducted and found that internal arcing had in fact occurred,
9 however the internal inspection found no visible cause. The manufacturer (Alstom),
10 which has recently changed its name to Areva, determined that the only way to find the
11 cause was to return the transformer to its repair facility.

12 The Company expects the transformer repairs to be completed and the plant back
13 on-line sometime in September 2004. The Company has ordered a backup transformer
14 for Coyote Springs 2, from a different vendor than Alstom (Areva), that is scheduled for
15 delivery in November 2004.

16 **IV. SUPPORTING DOCUMENTATION**

17 **Q. Please provide a brief overview of the documentation provided by the**
18 **Company in this filing.**

19 A. The Company maintains a number of documents that record relevant
20 factors considered at the time of a transaction. The following is a list of current
21 documents that are maintained and that have been provided on a compact disk (except
22 Credit Report) as part of this filing:

1 Gas/Electric Transaction Record: These documents record the key details of the
2 price, term and conditions of a transaction and include a discussion of market
3 conditions at the time of the transaction, the reason for the transaction, and
4 pertinent transmission or other delivery issues. (provided for each gas and electric
5 transaction, not including real-time and pre-schedule transactions).

6 Position Reports: These daily reports provide a summary of monthly loads and
7 resources over an 18-month forward period. Also included are forward
8 hydroelectric generation estimates as well as critical water generation variability.
9 Fixed price natural gas quantities are also shown assigned to the most economic
10 available generation plant.

11 Long-Term Physical Electric Load & Resource Tabulation: For transactions with
12 deliveries extending greater than the 18-month period covered by the Position
13 Report, the Company includes this document to show the net system position
14 during the extended period. This document also shows variability associated with
15 an 80% confidence interval around the combined variability of hydroelectric
16 generation and variability of load.

17 Forward Market Electric and Natural Gas Price Curves: This daily data is
18 maintained in Nucleus, the Company's electronic energy transaction database
19 record system.

20 Electric/Gas – Heat Rate Transaction Worksheet: For each natural gas transaction
21 a worksheet is prepared which summarizes the economics of the transaction using

1 the forward electric and natural gas prices available in the market at the time of
2 the transaction, the most economic available generator, and the resultant cost to
3 generate electric power (provided as part of Gas/Electric Transaction Record).

4 Price Quote Worksheet: Provides a record of the natural gas purchase or sales
5 prices available from several parties in the market at the time of a particular gas
6 transaction. This record includes price information at specific points of delivery
7 (provided as part of Gas/Electric Transaction Record).

8 Credit Report: Lists those counter-parties with which the Company is allowed to
9 enter into either purchase or sales transactions as determined by credit criteria set
10 by the Company. This report may also provide information on other parties'
11 credit limits placed upon their own transactions with the Company (not provided,
12 but available on request).

13 In addition, the compact disk contains backup worksheets related to the cost of the
14 fixed-price gas contracts and hydro generation variation.

15 **Q. Does that conclude your direct pre-filed testimony?**

16 **A. Yes.**