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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-04-3** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the August 19, 2004 Notice of Filing and Notice of Comment Deadline in Case No. AVU-E-04-3, submits the following comments.

BACKGROUND

On August 12, 2004, Avista Corporation dba Avista Utilities (Avista; Company) filed a Power Cost Adjustment (PCA) status report with the Idaho Public Utilities Commission (Commission) and requested authorized recovery of power costs deferred through June 30, 2004. The existing PCA surcharge of 19.4% is currently scheduled to expire October 11, 2004. Avista has requested in its pending general rate case, Case No. AVU-E-04-1, that the existing PCA surcharge be reduced at the time that new base tariff rates are made effective at the conclusion of the general rate case.

STAFF REVIEW

Audit Results

Staff has performed a review and audit of the amounts that went into the deferral balance in the current filing. Staff's review covered expenses incurred for the period July 2003 through June 2004. Staff was able to look at a representative cross section of transactions included in the Purchased Power account (FERC 555), Thermal Fuel account (FERC 501), CT Fuel account (FERC 547) and the Power Sales account (FERC 447). Based on its review of these sale transactions, Staff concludes that the transactions appear reasonable at the time they were entered. Staff finds the amounts recorded to be correct and recommends that they be included in the deferral balance as of June 30, 2004.

Deferral Balance Components

The Company is requesting Commission approval for recovery of the Unrecovered Deferral Balance of $26,105,927 as of June 30, 2004. The Unrecovered Deferral Balance at June 30, 2004 is calculated by starting with the Unrecovered balance at June 30, 2003, adding in the net deferral activity for the current period of July 1, 2003 through June 30, 2004; and subtracting the amortizations related to surcharge revenues.

• Unrecovered Balance at June 30, 2003	$27,843,108
• Net Deferral Activity (July 2003 – June 2004)	26,890,298
• Amortizations Related to Surcharge Revenues (July 2003 – June 2004)	(28,627,479)
• Unrecovered Balance at June 3,0, 2003	$26,105,927

The net deferral activity consists of several pieces. The Company's Application lists the deferral activity detail that goes into the Net Deferral Activity (July 2003 – June 2004) in the amount of $26,890,298. The net deferral activity is comprised of the follow items and amounts:

• Net Increase in Power Supply Cost	$28,664,583
• Centralia Capital and O&M Credit (Order No. 28876)	($2,817,996)
• Interest	$1,043,711

The Centralia Capital and O&M Credit reflects the Centralia capital costs such as return on investment and Centralia O&M expense. Since base rates were set, the Centralia power plant has been sold. The Centralia credit is designed to offset the Centralia revenue requirement that is still part of base rates. The Centralia credit is not subject to 90/10 sharing.

The largest component of the net deferral activity is the Net Increase in Power Supply Cost. Since power plants are economically dispatched, the PCA accounts also reflect additional power purchases when market prices are lower than generation costs. The reduced generation costs are also captured. The total net increase in power supply cost, $28,664,583, is comprised of the following items:

1.	FERC Account 555 - Purchased Power	$1,308,469
2.	FERC Account 501 - Thermal Fuel	($5,459,707)
3.	FERC Account 547 - CT Fuel	$4,800,403
4.	FERC Account 447 - Sales for Resale	$21,380,467
5.	All Potlatch Revenues and Expenses	$3,536,932
6.	Net Fuel Expense – Loss on Natural Gas Resold	$4,066,392
7.	Idaho Retail Revenue Adjustment	($1,321,161)
8.	Wood Power Inc. Amortized Expense	$352,788
	Total	$28,664,583

1. Purchased Power represents the difference in costs the Company incurred for power purchases when compared to base rates. The positive amount represents a cost to ratepayers – the Company bought more power in the market than is currently built into base rates. This is in part, due to the fact that the authorized case is based on the contracts and resources for the period July 1999 through June 2000, and will be updated as a result of the current rate case being concluded and new base rates being set.
2. Thermal Fuel is the amount spent for fuel, primarily coal, used to produce electricity. This item is the difference in costs the Company incurred for thermal fuel when compared to base rates. The negative amount represents a benefit to ratepayers – the Company bought less coal than is currently built into base rates. Thermal fuel expense for the Colstrip and the Kettle Falls plants were lower than the authorized amounts.
3. CT Fuel is the cost of natural gas burned in the Company's combustion turbines. This amount represents the difference in costs the Company incurred for CT fuel when compared to base rates. Since the last general rate case in 1998, the Company has added combustion turbines as another means of producing electricity. The amount currently built into rates does not reflect the addition of these plants, and

therefore, does not take into account the natural gas needed to fuel these plants. The positive amount is a cost to ratepayers.

4. Sales for Resale represents revenues the Company is able to generate through long-term and short-term off-system sales. These revenues reduce the revenue requirement for ratepayers. The positive amount represents a decrease in off-system sales. This amount represents an increased cost to customers over what is currently built into rates.
5. The Potlatch component is a direct assignment to Idaho of Potlatch costs and revenues (Lewiston facility).
6. Net Fuel Expense results when natural gas purchased for the CT plants is sold when it is less expensive to sell the gas and purchase electricity than is to generate power with the gas. The loss on the sale of the gas is included in the PCA. Of the $4 million (Schedule p3, ln 6) in net fuel expense deferred in the current PCA filing (July 30, 2003 through June 30, 2004), $3,584,648 is associated with the fixed-price gas contracts known as Deal A and Deal B. The costs associated with Deal A and Deal B are discussed later in these comments and will be settled with the conclusion of the current general rate case.
7. The Idaho Retail Revenue Adjustment is an adjustment for changes in load. If the load grows, revenue is added, if the load declines, there is an adjustment to reflect the decreased load. A revenue credit of retail load is computed using a variable cost of power supply of 21.23 mills/kWh multiplied by the growth in load.
8. Wood Power operated a PURPA qualified wood waste powered generation facility at Plummer, Idaho. Washington Water Power, Avista's predecessor, entered into a power sales agreement with Wood Power on August 19, 1982 to purchase the energy and capacity from that facility. On September 30, 1996, Washington Water Power entered into an agreement with Wood Power and Rayonier terminating the 1982 power sales agreement. In Order No. 26751, Case No. WWP-E-96-8, the Company received authorization for rate making and accounting treatment of the buy-out of the Wood Power, Inc. contract. The Commission found that the deferral and amortization of the buy-out over eight years was reasonable. This amount is the current year's amortization of the buy-out of that contract.

As was the case in the last Avista filing (AVU-E-03-6), a significant portion of the net increase in Power Supply Costs is due to the expiration of long-term power sales contracts. The expiration of profitable contracts reduced Sales for Resale revenue dramatically. In the PCA, Sales for Resale revenue is an offset to Power Supply Costs. The loss of revenue from expired contracts is partially offset by reductions in fuel costs and Purchased Power costs.

Net Fuel Expense – Deal A and Deal B

Avista Utilities has an obligation to provide electrical service to its customers. To satisfy this obligation, the Company both generates and buys electricity. Parts of the utility's generating resources are fueled by natural gas. When gas prices are low enough that electricity can be generated at a cost below the cost of buying electricity on the market, the Company buys gas and uses it to produce electricity.

In the last two PCA cases, AVU-E-02-6 and AVU-E-03-6, Staff questioned the circumstances surrounding acquisition and later sale of natural gas purchased by the Company. Specific fixed purchases are referred to as Deal A and Deal B.

In Case No. AVU-E-02-6, Staff proposed that the Commission withhold judgment on $578,748 at 90% of the Idaho Jurisdictional level in net fuel expense incurred in June of 2002 to serve Coyote Springs until a more complete evaluation was conducted regarding anticipated online dates, reasons for the operational delay and timing of the sale of gas acquired for use at the plant. Pending further investigation, the Commission in its Order removed the $578,748. The Commission allowed recovery of the losses associated with Deal A in the amount of $18,876,448 at the system level and $5,636,885 at 90% of the Idaho Jurisdictional level.

In Case No. AVU-E-03-6, Staff proposed that the Commission allow recovery of Deal A but not recovery of Deal B. The Commission decided to withhold their decision on the recovery of both Deal A and Deal B until the completion of the current rate case, Case No. AVU-E-04-1. In Case No. AVU-E-03-6, the losses deferred for recovery associated with Deal A were $19,877,934 at the system level, and $5,935,949 at 90% of the Idaho Jurisdictional level. The losses deferred for recovery associated with Deal B were $19,587,100 at the system level, and $5,849,100 at 90% of the Idaho Jurisdictional level. The amounts for Deal B include what had previously been set aside for further investigation in the AVU-E-02-6 case.

In this current PCA status report filing, the losses deferred for recovery associated with Deal A are $9,835,506 at a system level and $2,937,079 at 90% of the Idaho Jurisdictional level.

The losses deferred for recovery associated with Deal B are $2,168,541 at the system level and $647,570 at 90% of the Idaho Jurisdictional level.

The total losses included in the total deferral balance pending approval for recovery for Deal A are $29,713,440 at the system level and $8,873,027 at 90% of the Idaho Jurisdictional level; the total losses included in the total deferral balance pending approval for recovery of Deal B are $21,755,641 at the system level and $6,496,669 at 90% of the Idaho Jurisdictional level.

RECOMMENDATIONS

Staff proposes that the Commission accept the deferral balances as reflected in the filing. Staff recommends that a PCA surcharge, as determined in the final order of the current rate case, AVU-E-04-01, be continued until the next PCA filing. Staff also recommends any actual remaining deferral balance at June 30, 2005 be subject to review by the Commission prior to establishing a surcharge for an additional period of time, as provided for in Order No. 28876, Case No. AVU-E-01-11.

Respectfully submitted this 2nd day of September 2004.

Scott Woodbury
Deputy Attorney General

Technical Staff: Kathy Stockton

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 2ND DAY OF SEPTEMBER 2004, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-E-04-3, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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